

JPRS-CAR-91-055
11 OCTOBER 1991

Foreign
Broadcast
Information
Service



A N N I V E R S A R Y
1941 - 1991

JPRS Report

China

19980203 153

DTIC QUALITY INSPECTED 2

DISTRIBUTION STATEMENT A

Approved for public release
Distribution Unlimited

REPRODUCED BY
U.S. DEPARTMENT OF COMMERCE
NATIONAL TECHNICAL
INFORMATION SERVICE
SPRINGFIELD, VA 22161

China

JPRS-CAR-91-055

CONTENTS

11 OCTOBER 1991

INTERNATIONAL

UNITED STATES

- U.S. 'Economic Decline' Compared to 19th Century England [MEIGUO YANJIU No 2] 1

POLITICAL

- Concerns, Fears of Cadre Leaders [Hong Kong KAIFANG No 6] 3
Three Challenges Facing CPC [ZHIBU SHENGHUO No 7] 4
CPC Publication Discusses Leninism [XUEXI YU YANJIU No 8] 7
Deng Weizhi Discusses Meaning of Social Stability [SHEHUI KEXUE No 8] 10

ECONOMIC

NATIONAL AFFAIRS, POLICY

- Shanghai Enterprise Reorganization Warrants Study [JINGJI GUANLI No 6] 14
Thoughts on Promoting the Shareholding System [JINGJI GUANLI No 5] 17
Need for Scientific Development [QIUSHI No 12] 21
Overview of Theories on Market Slump [JINGJI KEXUE No 3] 26
Comparison of State, Township, Joint-Venture Enterprises [JINGJI CANKAO BAO 5 Aug] 31

PROVINCIAL

- Joint Sino-Foreign Shareholding Corporations Trials Set
[Hong Kong CHING-CHI TAO-PAO No 23] 33
Status Report on Shanghai Share System Pilot Project
[Hong Kong CHING-CHI TAO-PAO No 24] 34

FINANCE, BANKING

- Financial Reforms Encounter Problems [Hong Kong TANG TAI No 3] 34
Fiscal Subsidies, Causes, Effects [Hong Kong CHENG MING No 6] 36
Tax Evasion, Causes, Remedies [CAIJING WENTI YANJIU No 6] 38
Past Problems, Future Prospects for Fiscal Reform [SICHUAN DAXUE XUEBAO No 2] 43
Editorial Calls for Enforcement of Tax Law [ZHONGGUO SHUIWU BAO 1 Aug] 50
Analysis of Enterprise Reliance on Banks [JINGJI RIBAO 3 Aug] 51
Strategy To Improve Enterprise Economic Efficiency [ZHONGGUO SHUIWU BAO 12 Aug] 53

FOREIGN TRADE, INVESTMENT

- Report on Border Trade Between Guangxi, Vietnam
[Hong Kong LIAOWANG OVERSEAS EDITION No 23] 54
International Bank Syndicate Makes Loan to Company
[Hong Kong HONGKONG STANDARD (BUSINESS STANDARD) 9 Aug] 56
Customs Statistics Show Foreign Trade Growth [XINHUA] 57

ECONOMIC ZONES

- Mayor on Shenzhen's Reform, Development
[Hong Kong LIAOWANG OVERSEAS EDITION No 29] 57

AGRICULTURE

Liu Dongping Discusses Wholesale Grain Markets [Hong Kong CHING-CHI TAO-PAO No 25] ...	59
Measures To Ensure Rational Sugar Prices [JIAGE YUEKAN No 7]	61
Discussion of Grain, Oil Products Price Revision [JIAGE LILUN YU SHIJIAN No 6]	62
Hebei, Shanxi Summer Grain Output [JINGJI RIBAO 2 Aug]	64
Article Urges Proportional Increased Poultry Production [NONGMIN RIBAO 5 Aug]	65

SOCIAL

Problems in Mainland Libraries Viewed [Hong Kong TANG TAI No 3]	67
Four Contradictions in Married Life [ZHONGGUO SHEHUI BAO 30 Jul]	68
Causes of Abduction of Women Discussed [RENMIN GONGAN BAO 16 Aug]	68

PRC MEDIA ON TAIWAN AFFAIRS

Taiwan's New Direction of Foreign Expansion [Hong Kong LIAOWANG OVERSEAS EDITION No 23]	70
Taipei Seen as Possible International Finance Center [Hong Kong CHING-CHI TAO-PAO No 24]	71
Seminar Studies Expansion of 'Cross-Strait Relations' [RENMIN RIBAO 7 Aug]	73

TAIWAN

Investors Encounter Problems on Mainland [Hong Kong CHENG MING No 6]	74
Anthony Chiang on 20 May Demonstration [HSIN HSIN-WEN No 220]	77
Liang Su-jung Feels Politically Persecuted [HSIN HSIN-WEN No 223]	79
6-Year Plan To Promote Hi-Tech Initiative, Independence [Frankfurt/Main FRANKFURTER ZEITUNG/BLICK DURCH DIE WIRTSCHAFT 20 Aug]	80
Editorial Urges Caution in Spending Foreign Exchange Reserves [CHING-CHI JIH-PAO 29 Aug]	81

HONG KONG, MACAO

Direct Elections Politicize People's Lives [MING PAO 25 Jul]	83
Sources of Campaign Funds Among Democratic Groups [MING PAO 4 Jul]	84

UNITED STATES

U.S. 'Economic Decline' Compared to 19th Century England

91CM0549A Beijing MEIGUO YANJIU [AMERICAN STUDIES] in Chinese No 2, 25 Jun 91 pp 7-20

[Article by Zheng Weimin: "Is the U.S. Economy on the Rise or in Decline?"]

[Excerpts] From an historical angle, neither the rise of the United States nor the decline of England happened in one step, but came about only after more than half a century of development. The rise of the United States and its development into a superpower is not only due to the unprecedented increase of its actual economic power, but is also the result of the extreme growth of its military power and its strength in political and cultural influence based on the rapid increase of economic power. Therefore, judging the rise and fall of a great nation must take its overall national power as the criterion and study the increase or decrease of the country's economic, military and political power within a fixed historical time period, and also study population, dimensions, territorial size, abundance of natural resources, educational levels, scientific and technical achievements, social cohesiveness and other essential factors that promote social and economic development. Without any doubt, among the key factors that form a nation's overall power, total economic strength has the primary significance, not only because military power and political influence are derived from economic strength, but also because the overall strength or weakness of a nation is apt to be manifested first through the strengthening or weakening of economic power. The decline of England started with a relative decline in its economic strength. In the last several decades of the 19th century, the United States and Germany caught up and then passed England economically. Many factors pushed England into decline. But the most significant were England's defeat by the United States and Germany in the competition for what represented the progressive productive forces of the time such as electricity, chemistry, oil and automobiles, the long-term fatigue and slowdown of economic growth, and increase in productivity lagged behind the United States and Germany. In addition, the overall power of England to a great degree, was built on the foundation of its massive colonial system. England's own area is comparable to Oregon, but controlled colonial and semi-colonial lands equivalent to one-fourth of the world area. Economic and military power could not long be sustained in such a situation; following the development of separatist tendencies and struggle for ethnic independence, England's colonial system ultimately collapsed.

The passage of England from prosperity to decline is clear; England's decline and America's rise are two aspects of the same historical process. Now, "declinists" compare the United States of today with the England of yesterday, and have come to the conclusion that the

United States is in decline. We believe that this comparison is not entirely appropriate. The "declinists'" principal basis for relative American decline are that the United States' economic growth rate has dropped behind Japan for a long time, the double-digit deficit problem is serious, drop in gross output value and in share of world exports, becoming the world's biggest debtor nation, the impact of huge military expenditures on economic development, etc. These are facts, but to say that the United States has now started on the road to decline previously trod by England lacks convincing power. Because, up to now, the United States is still the most economically powerful and technically developed nation in the world. No other nation can surpass it economically or militarily. Japan has developed into a great economic nation, and its economic growth rate is indeed faster than that of the United States, but in comparison to the United States, its economic power lags a certain distance behind.

[passage omitted] We believe that compared to the peaks of the 1950's and 1960's, the United States superior position in world economics has indeed weakened, but to say such weakening is a relative decline is not precisely true. Weakening and decline are concepts that do not have the same meaning; the former reflects quantitative change, and the latter shows qualitative change. If one says that a great nation's economic strength has weakened meaning that its superiority to the economy of other nations has contracted, then relative decline refers to the start of a loss of superiority; the history of England's rise and fall proves this point. For this reason, only when a great nation's economic strength has caught up with or passed the United States, can we talk about the start of American economic decline. At present, this situation has not occurred. If we speak of future decline as present fact, then naturally it is easy to come up with a pessimistic conclusion. We opine that, using a concept of relative weakening to describe the change in the American economic position in the past 20 years is comparatively more accurate and more in conformity with the actual situation.

[passage omitted] As mentioned previously, our discussion of whether the United States is already in a state of relative decline is primarily from an overall standpoint; i.e., mainly, the angle of consideration is that of overall national power and economic strength; it reflects the phenomena of the overall situation and its intrinsic character, and not local and superficial appearance. Among developing capitalist nations in the past 10 to 20 years, following changes in the economy and property structure, not only in the United States, but in Japan, Germany and other nations, all have industries that are on the rise and on the wane. This is a common, regular phenomenon in the current process of capitalist economic structuring and development. One cannot use this as a premise to discuss the rise or decline of the American economy. At present, the question to answer is whether another nation has caught up with or surpassed the overall American national power and economic strength. The answer is no. Of today's three economic

centers, Japan has surpassed the United States in some important industrial sectors and some scientific and technical areas, and continues in the stance of an economic power to make aggressive challenges economically to the United States. Nevertheless viewed from an overall economic power and scientific and technical level, Japan still lags behind. As for overall national power that includes military, political and cultural influence, the gap is even greater between Japan and the United States. Therefore, in the European Community triumvirate structure with the United States, Japan and Germany as nucleus, for a rather long historical period, the United States will continue to exercise the role of alliance leader, and will occupy the dominant position in dealing with major international affairs. In the entire process of dealing with the Gulf crisis, American dominance was repeatedly manifested. This is not to say that the United States will never go the road of decline already trod by England, but that the United States of today is different in many ways from the England of the early 20th century. For example, the United States today possesses not only strong economic and military power,

but is populous, territorially vast, has abundant resources, rather strong cohesive power in politics, has advantageous geography, etc., none of which can be matched by England. Especially after the end of the Civil War, the American economy from start to finish was a complete entity, all these factors enabled the United States to develop its economy, and science and technology. Increased military power gave them plenty of room to maneuver around England at that time. The purpose of our commentary on these traits is to point out the inappropriateness of a simple comparison of the United States today and the England of yesterday, and not to say that the United States will never walk the road of decline as has England. After several decades of development after World War II, the United States has become weaker in its superiority over its principal partners Japan and Germany. If the United States does not adopt effective policies and measures to turn around this situation, it can thoroughly lose its economic superiority and walk the road of decline. But, even if such a situation should appear, I am afraid it will happen half a century later.

Concerns, Fears of Cadre Leaders

91CM0474A Hong Kong KAIFANG [OPEN
MAGAZINE] in Chinese No 6, 15 Jun 91 pp 16-17

[Article by Special Correspondent Li Tsung-hsiang (2621 1350 4382): "Li Peng and Jiang Qing—A Talk With an Old Shanghai Cadre"]

[Text] Chinese Communist cadres after 4 June, eye Ceausescu's killing. Each is worried that rebellion will occur again and all party members and cadres could be hanged. Deng Xiaoping ordered the confiscation of the memoirs that Jiang Qing's wrote in prison and thus caused her feelings of despair to multiply ...

This writer recently had a long talk with a rather open-minded high-level Chinese Communist cadre in Shanghai that touched on some inside stories of the Chinese Communist upper echelon and Jiang Qing's death. This person is quite reliable. Below, I will specifically introduce him to the readers and appropriately quote his original statements in the article.

If Rebellion Occurs, We All Could Be Hanged

Are there divergent views of Deng Xiaoping within the Communist Party of China because of the 4 June incident? No. Although there are differing views regarding reform, a great many cadres fear Deng Xiaoping's death. It is common knowledge among them that after Deng's death there will be general chaos. Especially after the 4 June incident and the Romanian restoration, they believe this appraisal even more. They know that the CPC has neglected the people too much for over forty years. Once rebellion breaks out, it will not matter if you are of the conservative faction or the reform faction, "No one will escape, everyone could be hanged!" An old cadre said, "Everything that the Kuomintang had in the past we have, and we also have what they did not have."

The cadres believe that now there still is no one whose prestige compares with Deng Xiaoping. Although there are several voices, Deng, the boss, still has the greatest voice. He still must be listened to. If Deng lives one more year, it is one more year to the good. "When Chinese have no alternatives, they always place their hopes in a capable and virtuous ruler."

Chen Yun recently expressed deference to Deng Xiaoping. Not long ago, he came to Shanghai to talk with Zhu Rongji and clearly indicated that he intended to support Deng Xiaoping's policies. He gave his "not only the upper [echelon], not only the literati" speech. No one mistook it to be aimed at Deng Xiaoping, but they took it as an expression of agreement with Deng's utilitarian "cat theory."

Old Deng Is Only Worried About Successors

Deng Xiaoping's most troublesome problem now is not how to redress the 4 June incident or the most favored nation issue, but a personnel problem, the succession

issue. Because his past choices, Hu Yaobang and Zhao Ziyang, both failed, "although the sky has not fallen, it greatly worries him."

Zhu Rongji is his choice. A year ago in Shanghai he told Zhu that he wanted him to look for someone to do his job. In March, Shanghai's *JIEFANG RIBAO* [LIBERATION DAILY] published two famous Huang Fuping [4106 3940 1627] articles advocating reform in succession. The author was the Shanghai municipal party committee writing group and Zhu was behind it. The Wang Renzhi [3769 1804 0037] and Gao Di [7559 3695] run *RENMIN RIBAO* [PEOPLE'S DAILY] and used the column "Sketches and Notes on Socialism" on 24 April to criticize Huang Fuping. The Shanghai municipal party committee immediately sent word internally to Beijing that the article's viewpoint was agreed to by Deng Xiaoping. Deng originally intended to make Zhu premier, but for stability he changed his mind and decided that it would be better to postpone the big personnel change and have it decided all at once at next year's 14th CPC Congress. The next premier will certainly be either Zhu Rongji or Zou Jiahua. Who will be on top? It will depend on the situation at that time.

Deng truly intends to solve the Zhao Ziyang issue this year. He sent a delegation to talk with Zhao. The conditions were that Zhao definitely must publicly acknowledge his mistakes, otherwise Deng would lose face. "But Zhao Ziyang also wanted to save face and refused to acknowledge his mistakes. So, the issue is left hanging." But, the Zhao issue definitely cannot drag on to the 14th congress.

Beijing's Leftist Are Most Fearful of Restoration

"The Beijing leftist group," Wang Renzhi, Gao Di, and company, is what the Shanghai cadres call Deng Liqun [6772 0500 5028]. There also are some who call Deng Liqun the "underground general secretary" and say that they have a shadow leftist cabinet and, when the time is ripe, they could take the authority from the original forces.

Another leftist Beijing group is from the municipal system, like Secretary Li Ximing and Mayor Chen Xitong. They were the creators of the 4 June massacre and are diehards. They firmly oppose redressing 4 June and oppose Zhao Ziyang's coming out again. Not long ago, Chen Xitong said, "Unless the Communist Party falls from power, do not even think about redressing 4 June!" Li Ximing at a May municipal party school meeting also said, "If we do not firmly uphold Marxism-Leninism and pay attention to training successors, the Communist Party could fall within 20 years!"

Some among the cadres say that if the Communist Party really falls, Chen Xitong and Li Ximing's heads will be the first to roll.

What is Li Peng's situation? It is said that before the March National People's Congress when it was a foregone conclusion that he would not step down, at an

inside gathering he proudly said, "Some people are thinking about pulling me down. I tell everybody that it is not so easy! I weigh 90 kilograms!" This earned a round of applause from his supporters.

Foreigners' Aversion to Jiang Zemin's Showing Off With Foreign Languages

There were quite a few comments on Jiang Zemin. Most think that his image is better than Li Peng's. He knows how to conduct himself, but actually he still is incompetent. There is a story circulating among Shanghai cadres that Jiang Zemin in Shanghai originally wanted to retire from being a cadre. How did he all of a sudden jump to the Central Committee as general secretary?

Jiang Zemin also has been reproached for his showing in foreign affairs activities. A *XINHUA* reporter reflected on the foreign visitors' suggestion to the central authorities that Jiang Zemin not speak English when he sees foreign guests, "because others do not know what he is saying." It is said that when he visited the Soviet Union, there also was this problem. When he toured and even when he held talks, he always wanted to speak a couple of sentences of Russian, but others did not understand. He thought that, if he did not do that, he could not show that he was an intellectual.

Qiao Shi Is Greatly Relied on by Deng Xiaoping

In the Chinese Communist upper echelon there are two people who have good relations with Deng Xiaoping but are not taken too seriously by outsiders. One is Wan Li and one is Qiao Shi. It is said that Wan Li is now one of the few people who dares to differ with old Deng to his face. But because of age, Wan Li also will be unable to play a major role in the future political scene.

Qiao Shi is different. He is the most important person in the current Political Bureau Standing Committee. If he disagrees with a proposal, there is no way for discussion to proceed. He is the "minister of internal affairs" upon which old Deng at present very heavily relies, and whenever the occasion warrants, Qiao Shi can report directly to old Deng. Qiao Shi is in the same age bracket as Hu Qili and Jiang Zemin, but he is more reserved and steadier than Hu and Jiang, and his children did not participate in the 1989 student movement street demonstrations. He has one son who is studying in the United States.

Qiao Shi is a Chinese Communist successor with a great deal of political and legal power. Some say that once turmoil occurs Qiao Shi could play an important strongman role. He is quietly gathering strength to himself in the central [party and government].

Shanghai All Along Had People Supporting Jiang Qing

Because Shanghai was the old nest of the gang of four, after the news of Jiang Qing's death was circulated, there was a great deal of interest in Shanghai cadre ranks. "We in Shanghai are very sensitive to the gang of four issue.

We know that all along some people in Shanghai supported Jiang Qing and sympathized with Jiang Qing; underground publications were discovered. The situation is more complicated than any other city in the nation. The reason that the central authorities did not release the news of Jiang Qing's suicide before 4 June was certainly to guard against someone using the opportunity to create a disturbance."

Deng Xiaoping Did Not Permit Jiang Qing To Write Her Memoirs

The cause of Jiang Qing's death is generally felt to be surprising. She could be "released for medical treatment." Why would she still want to kill herself? There is a rumor that **Jiang Qing wanted to write her memoirs and Deng Xiaoping directed that whatever she wrote in prison must be passed to the central authorities for examination and safekeeping, and they could not be leaked without authorization.** When Jiang Qing refused to obey, the prison explained saying, "You are different from most people. You know a great many key party and state secrets. You should understand the importance of protecting secrets!"

This was actually tantamount to forbidding her to write, because she believed deeply in the Chinese Communist system of strictly protecting secrets. What she wrote not only would have no opportunity to face the world, but her manuscripts could also be destroyed and even her personal safety could be endangered. She naturally despaired.

"Jiang Qing was such a crazed persecutor that at the beginning of the Cultural Revolution she ordered the whole country to hand over all historical written and pictorial material about her to the Central Committee Cultural Revolution group to be immediately destroyed; some things she burned with her own hands. Now she certainly understood how other people might treat what she had written."

This Chinese Communist cadre's word is irrefutable.

Three Challenges Facing CPC

91CM0528A Beijing *ZHIBU SHENGHUO* [PARTY BRANCH LIFE] in Chinese No 7, 5 Jul 91 pp 8-9

[Article by Wang Wei-cheng (3769 4850 3397), Chairman of the CPC Central Committee Policy Research Office: "Resolution Must Be Found to The Problem of Withstanding 'Three Tests' in Party Building"]

[Text] In leading the people toward the realization of socialist modernization, our party is currently faced with three major challenges. That is, what we usually term the challenge of governing, the challenge of reform and opening up, and the challenge of anti-peaceful evolution. Our party must solve the three challenges, and answer

the three challenges in party-building theoretical research. Failure to accomplish either will incur heavy losses to the party's cause.

1. A fundamental guarantee for the state's continuous and victorious advancement along the road of building socialism with Chinese characteristics is that we must insist on the party's ruling position and improve ruling skills. We should be on alert against external forces which aim to overthrow the proletariat regime. Such a danger still exists today, but we should pay more attention to the problem of peaceful evolution. Some westerners believe that some socialist states have been overthrown through peaceful evolution. Once the communist party loses its ruling position in a country, the country will certainly go back to capitalism, and become the subordinate of Western powers. Economic development, prosperity, stability, unity and success, and its status in the world will be lost. Lenin said that a true Marxist must acknowledge not only class struggle but also proletarian dictatorship. Comrade Mao Zedong published his brilliant work "On People's Democratic Dictatorship" on the eve of the founding of the PRC, which developed the theory of proletarian dictatorship. Reviewing their teachings, we now understand better the importance of the people's democratic dictatorship. As members of the ruling party, we should intensify our ruling awareness, with a strong sense of responsibility for our class, the people, socialism, the destiny and future of the party and state, thoroughly understand the importance of the party's position, and act accordingly to consolidate and develop the socialist system. Our party should insist on being in power, and we should also rule wisely. It is no easy job ruling a nation with a population of 1.1 billion. It is an abstruse subject of learning to know how to properly combine democracy with dictatorship so as to develop its real function of protecting and developing socialist modernization. Our basic political system is a product of long history. Having withstood the test of practice, the system is suitable for socialism and China's conditions. In particular, with the reform of the political system over the past decade, the system has been improving constantly and functioning pretty smoothly. Of course, we are still faced with many new problems to be studied and solved. We still carry on political reform, and strengthen and improve the party's leadership in the state to have the state function more effectively, mobilizing and gathering the forces of people throughout the country to develop national economy and enhance overall social progress.

After the party took power, we had better chances to serve the people. At the same time, because of changes in the environment and status, some individuals with weak party spirit tended to wrongly divorce themselves from the masses. This tendency mainly includes two types: One, bureaucrats that stand high above, do not understand what is happening below, do not understand the psychology of the masses, their wants or desires, and fail to care about the misery of the masses. Two, violations of law that abuse power, encroach on the interests of the

people, and use power for private gain to profit themselves, their relatives or their own groups. Some have even totally degenerated. Therefore, the prominent issues are how to build a party serving the interests of the people, governing for the people, encouraging honesty and opposing corruption, and preventing degeneration. It is a major topic in studies of party-building theories to analyze the various defects that exist or possibly occur of divorcing from the masses under new historical conditions, and to find out ways of remedying these problems, by earnestly implementing the Resolution of the Sixth Plenary Session of the 13th National Party Congress, and following the party's fine tradition of mass line. As long as our party persists in pursuing the principle of serving the people whole-heartedly, has the people united around the party and state power at all times, the ruling position of the party will be as steady as a rock, and will serve as the fundamental guarantee for the realization of China's socialist modernization.

2. We will follow the direction of reform and opening up and socialism. Over the past 10 years or more, our reform and opening up policy have made great achievements recognized by the world. There are, however, many exceptionally complex problems to be solved, if we are to achieve overall success in reform, gradually perfect the socialist system, fully display its advantages, attain the eventual victory in opening up, and ensure our unbeatable position in international competition. For instance, how to promote fast development of social production force via commodity economy, and prevent negative aspects from weakening the party's body under conditions of socialist planned commodity economy. We will set up an economic system and operation mechanism that combines economic planning with market regulation. We have decided on our direction and basic principles, and have also accumulated a lot of successful experience. But we have to continue our efforts to explore in both theory and practice how we can better combine the two, make a suitable combination in range and extent, make the combination methods more scientific, and have abundant combination forms. We are dealing with other nations. But how to persist in independence and self-reliance, and absorb everything beneficial to us, are many questions that need further study.

Reviewing the reform practice of our country and other socialist nations, the question of how to persist in socialist direction in reform is worth special attention and serious study. Experience and lessons from some socialist countries tell us: It is impossible to develop socialism without reform and opening up; it is all the more impossible if reform and opening up deviate from the socialist road. In the case of China, we must guard against the intrusion of decadent capitalist thought when we import extensively advanced technology, management experience, and fine cultural achievements from other countries including capitalist countries. Otherwise, some cadres and people will be corrupted, and may even commit crimes. We need to summarize systematically experience in these aspects and provide scientific

answers, making sure that our reform and opening up forge along the socialist road.

3. It is our party's strategic task to resolutely defeat internal and external hostile forces and the attempt of peaceful evolution. Since the political event of early summer in 1989, especially since the loss of the ruling position of communist parties in some countries, we have come to see peaceful evolution as a real danger. There will be a long struggle between peaceful evolution and anti-peaceful evolution. The essence of peaceful evolution is to first transform the ruling communist party, then change the nature of state power and society. Both internal and external hostile forces know that from outside they cannot replace and destroy our party which has stood the test of time. They therefore hope to see changes within our party. They will then achieve their end by cooperating with forces from within. We must from the high plane of strengthening party-building and its ruling position, further study how to oppose peaceful evolution, making our party a firm strong hold against peaceful evolution.

Although there may be a fierce clash and confrontation when peaceful evolution reaches a certain stage, in the process however, it is usually manifest in ideological transformation. Currently, we should be particularly alert against two ideological trends. One, western hostile forces are trying to instigate resentment against socialism and the communist party by disseminating capitalist political, economic and cultural models, values, and decadent bourgeois thought and life style, especially their views of "democracy, freedom, and human rights". Two, the anti-Marxism trend is mostly noticeable in democratic socialism. Although democratic socialism takes the name of socialism, it advocates multi-party system and parliamentarism politically, pluralism ideologically, privatization and market economy, rejecting the leadership of communist party, thus denying the core characteristics of scientific socialism and its basic principles. These two trends are closely related, they often respond to each other, and jointly expand their domains. Once they breed and grow within the party, the ideological fight will turn into political action to dissolve party leadership and the political system, eventually leading to the changes of state power and societal nature. The insistence on four basic principles, and the policy on opposing bourgeois liberalism and on education, proposed by the party is a significant strategy. It is an important question in party-building to draw a demarcation line against bourgeois political and ideological views, and against democratic socialism to set up a steel great wall in ideology against peaceful evolution. It is also an important issue in the study of party-building theories.

The challenges to governance, reform and opening up, and anti-peaceful evolution are different, yet related. Drawing upon historical experience, we need to solve three basic issues to withstand the three challenges.

First, we must make sure that those holding party and state offices are loyal to Marxism. As long as the core leading positions are held by Marxist loyalists, are firm and unified, there will be a basic guarantee for the party to withstand the three challenges. In the past several decades, we have had experience and lessons regarding this issue. We must earnestly study, and try to identify patterns for the training of millions of leaders faithful to Marxism; this is of exceptional significance to us. Whether or not a cadre is loyal to Marxism, does not merely depend on what he says, more important is what he does. Whether he has adhered to the party's stand, party principles and lines in major political issues and struggles at crucial moments. The question of leadership refers not only to central leadership but also to that of party committees at all levels. We should view the question in terms of the present and the future. From now on, we have to consider the 21st century, and make efforts to train a larger number of leading personnel faithful to Marxism and able to handle future responsibilities. This is a strategic task concerning long-term stability of the party and state. We should sharpen our sense of urgency and responsibility, and conscientiously solve this problem.

Second, we must strictly uphold the party's principle of democratic centralism. Democratic centralism is the basic organizational principle of the party, and is also a powerful weapon to assure correct decision making by the party, unification and maintenance of strict and clear disciplines. Over the past few decades, especially since the 3rd plenary session of the 11th Party Congress, our party has constantly strived to improve democratic centralism. But we have to admit that there remain quite a few problems in the implementation of the system. In general, democracy and centralism have been insufficient, and the problem of insufficient centralism is more serious at present. Departmentalism and decentralization tendencies that focus on local interests, and ignore general interests and pluralism actions still exist in some regions and departments. Some still have the wrong attitude of "countering upper-level policies." We must seriously study and solve this problem, and try to promote a "political situation where there are centralism and democracy, discipline and freedom, centralized will and personal feeling of relaxation, joy and vigor," arouse enthusiasm in and outside the party, and unify all party and people's forces to struggle for our great cause. This way, we will be able to overcome all difficulties on the road of advancement and stand firm in face of great storms.

Third, we must be tactical in coping with contradictions and struggles within the party. The whole party history proves: The party has developed and consolidated through constant tackling of internal contradictions. Our major problem in the past was that we often one-sidedly emphasized the social class source of contradictions within the party and ignored their complex epistemological source. We viewed all contradictions as a reflection of class struggle in the party, even as a "deadly class

struggle" between two hostile classes. In the party's history, we made quite a few mistakes of "ruthless struggle and merciless blows" to our comrades. Our party has drawn unforgettable lessons from these mistakes, which we will always keep in mind. Although the current environment and situations in the party are quite different now, contradictions within the party still exist. Some reflect class struggle in society, but the majority of contradictions occur between epistemological differences of partiality and impartiality, between maturity and immaturity, between positive and negative behaviors, and between correct and mistaken thought and behavior, all under circumstances of fundamental consensus on goals and interests. Proper understanding and handling contradictions within the party, active ideological struggles, and preventing intrusion of nonproletarian ideology, are important ways to improve the party's fighting capacity. We have to summarize experience in how to correctly differentiate and understand contradictions within the party, and how to courageously and wisely handle these contradictions in our study of party-building theories. We will mercilessly expel from the party hostile elements who cheat the party and degenerated elements. We will actively fight unhealthy trends in the party. Criticism and self-criticism are notable characteristics and one outstanding merit of our party. Under new historical conditions, we should carry on this fine tradition, constantly reinforce the political and principled character of party life and maintain the party's exuberant vitality.

CPC Publication Discusses Leninism

91CM0563A Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 8, Aug 91 pp 11-14

[Article by Ge Hongze (5514 3163 3419) in an official publication of the Beijing CPC Committee: "Leninism and the Distinctively Chinese Socialist Road"]

[Text] The second Chinese edition of *The Collected Works of Lenin* is a voluminous work that demonstrates the extensiveness and the profundity of Leninism. The problems that Leninism addresses encompass two most important fields: One is a theoretical exploration of the problem of modern capitalism's transition to socialism and the opening up in the course of practice of the road of the October Revolution which transformed socialism from a theory to a reality and thereby changed the course of world history during the present century. The other is the use of the combination of theory and practice to seek and to explore the special avenues and laws for building socialism in economically and culturally backward countries. These two aspects, which constitute the dominant theme of Leninism, deserve our diligent emulation and study.

Lenin made a famous remark as follows: "Mankind's travel on the road from today's imperialism to tomorrow's socialism will likewise be expressed in several ways. Inevitably all peoples will move toward socialism, but the way in which all peoples get there will not be

entirely the same. Different peoples will have their own ideas about whether democracy should be of one form or another, about whether the dictatorship of the proletariat should be of one type or another, and about the speed of the socialist transformation of all aspects of socialism." (Footnote 1) (*Complete Works of Lenin*, second issue, and the same applies hereinafter, Vol 23, pp 64-65) This statement from Lenin validates today's practice of socialism. Despite the changes in the international situation, true members of the Communist Party in each country continue to set up their own distinctive road toward socialism. In particular, the CPC's unequivocal proposal to take a distinctively Chinese socialist road even more points to the CPC's awareness on this issue.

Nevertheless, when truth goes half a step too far, it may become falsehood. On the issue of a people's seeking its own road for the building of socialism, can one go to extremes, concluding that "Leninism is out of date," thereby further repudiating the guiding role of Leninism in the building of socialism in backward countries. One cannot. This is because Leninism is not an empty theory divorced from reality, but rather is a developing, living Marxism. In the Russian Revolution Leninism married Marxism to concrete practices, concrete construction, and to advances in the development of modern capitalism, paying attention throughout to real problems posed in actual life. Our study of Leninism still holds intense, practical significance today.

First of all, the Study of Leninism Helps Us Thwart the Peaceful Evolution Plot of Hostile International Forces Which Is Aimed at Undermining Socialism, and Helps Us To Remain Firm in Our Revolutionary Faith in Taking a Socialist Road With Chinese Characteristics.

Leninism continues to face serious challenges today. In their attacks against Marxism and in their attacks against socialism, hostile international forces target Leninism and the road of the October Revolution that Lenin revealed. For the ultimate success of their plot to "disintegrate the common Marxist-Leninist theories that world communism shares, these forces through attacks on Leninism seek to open a breach, hastening the political collapse and the theoretical defeat of communism." At the same time, the development of socialism has encountered serious setbacks. Some people have lost faith in Leninism. They declare that they "want to break with the legacy of Leninism," "to repudiate Leninism completely and openly," to select social democracy anew, etc. Still others straightforwardly advocate "across-the-board Westernization," to take the capitalist road. The study of Leninism is very enlightening in making a correct reply to this challenge. Leninism was born in the early part of the present century when the development of Western capitalism was fairly even and the international communist movement was at a low ebb. Many leaders of the Second International Social Democracy Party were in a quandary about the development and "prosperity" of capitalism. They felt that Marxist doctrines on violent revolution and class

struggle were out of date. They attempted to use methods such as "parliamentary struggle" to revise Marxism, taking the so-called social democracy road to bring about the gradual improvement of capitalism for an ultimate transition to "democratic socialism." Lenin waged an unceasing struggle against the Second International's opportunistic trend of thought, and he developed Marxism to the Leninist stage. Lenin believed that during the era of imperialism, capitalist political and economic development were uneven, but that the relatively even development of capitalism at that time presaged an eastward shift in the center of revolution. Socialism might first gain victory in a small number of countries or even in a single capitalist country. Under guidance of this innovative idea, Lenin successfully led the October Revolution to found the world's first socialist country.

While Lenin was alive, difficulties for socialism's survival were far greater than today. At that time, globally speaking, socialism was an "isolated island" completely surrounded by capitalism. Capitalists hated the October Revolution to the very marrow of their bones, and tried to throttle it by force. All sorts of doubts existed both inside and outside the party as to whether socialism would be able to continue to survive, so much so that "several members of the party who had formerly held positions of responsibility wavered in the face of the capitalist onslaught and fled from our ranks. The entire bourgeoisie and its accomplices were delighted at this turn of events. They gloated, loudly proclaiming that the Bolshevik government had already disintegrated, and they predicted that the Bolshevik government was doomed to complete destruction." (Footnote 2) (*Selected Works of Lenin*, Vol 3, p 370).

However, the enemy's wishful thinking ultimately came to naught. Why? The most basic reason was Lenin's indomitable faith in the inevitable victory of socialism, as well as his close reliance on the spirit of the struggle of the masses to win victory. Lenin said: "Tenacity, perseverance, determination, resolve, skill in repeated experimentation and repeated revisions, and also not giving up until the goal is reached—these qualities of the proletariat assure that the proletariat will certainly triumph." (Footnote 3) (*Complete Works of Lenin*, Vol 38, p 344). "We have never doubted the ability of the Soviet regime to gain the sympathy of an overwhelming majority of the masses, receiving their most enthusiastic support and their most heartfelt endorsement. For this reason, the Soviet regime is invincible." (Footnote 4) (*Selected Works of Lenin*, Vol 3, p 419.)

One might say that the foregoing two passages provide inspiration for us today in foiling the peaceful evolution plot of hostile international forces and in firmly following the road of a distinctively Chinese brand of socialism. Today the development of socialism has encountered temporary difficulties, but these difficulties are nothing at all compared with the difficulties that Lenin faced at that time. Socialism has already put down roots in China, and it has made world-acknowledged

accomplishments. So long as the CPC can remain firm in its belief in the inevitable victory of socialism as Lenin did, correctly eliminate interference from the right and from the "left," adhere to the mass line, and maintain flesh and blood links with the masses of people, it will certainly be able to surmount the present difficulties to handle its own affairs well.

Second, the Study of Leninism Helps Us in Reform and in Opening to the Outside World To Take the Road of Building a Distinctively Chinese Brand of Socialism.

Lenin was the first explorer and pioneer to seek a way to build socialism in an economically and culturally backward country. Following the October Revolution, the New Economic Policy [NEP] that he put forward in his voluminous writings, particularly in the summarization of the lessons of experience of "wartime communist policies" embodies in a concentrated way Lenin's thinking on how to find the special laws for the building of socialism in an economically and culturally backward country. This thinking consists primarily of the following:

(1) Need to assure a socialist orientation in building. Following the victory of the October Revolution, as a result of the war atmosphere prevailing at the time, various "war communism policies" had to be adopted from the summer of 1918 until December 1920. Some of these policies had to be adopted because of the climate at that time, and some of them were related to the understanding of socialism at that time when it was mistakenly assumed that under socialism "all society would become a management office and a factory in which labor was equal and compensation was equal." (Footnote 5) (*Selected Works of Lenin*, Vol 3, p 258). Once the civil war was over, after a period of practice, Lenin discovered that "war communism policies" did not provide a good vehicle for the transition to socialism. He then shifted to the NEP, which among other things, looked after the peasantry, retained commodity production, and instituted the leasing system. At that time, reactions to the NEP differed both inside and outside the party. Those having rightist leanings onesidedly distorted the NEP as a negation of "war communism" in an effort to repudiate the October Revolution that Lenin had initiated. Those having "leftist" leanings resisted the NEP, and could not adapt to NEP management methods. They were still loathe to part with the bureaucratic issuance of orders. Lenin maintained a resolute struggle against these two inclinations. Lenin believed that implementation of the NEP did not mean abandonment of the goals of socialism and communism. On the contrary, the real way to build a socialist economy and to build a socialist economic foundation was through implementation of the NEP. Implementation of the NEP in order to compete with capitalism was a special form of class struggle. So long as "our hands control main economic strength and so long as all large enterprises, railroads, etc. of decisive importance are under our control, no matter how widespread leasing may be in some places, in an

overall sense, its role will be very small, and its percentage minuscule. The economic power in the hands of the Russian proletariat is entirely sufficient to assure a transition to communism." (Footnote 6) (*Selected Works of Lenin*, Vol 4, p 636). Therefore, Lenin repeatedly reiterated that the orientation of the NEP was socialist, not capitalist.

(2) Need for correct handling of the relationship with capitalism. Lenin believed that surrounded by capitalism as it was, for socialism not to have contact with capitalism was unimaginable. "So long as capitalist countries exist, we will have to do business with them." "When our country is economically extremely weak, how can we accelerate economic development? By using the capital of the capitalist class, that is how." (Footnote 7) (*Complete Works of Lenin*, Vol 33, p 186, and Vol 31, p 392). Naturally, the use of capitalism did not mean giving it a free hand but rather required the intensification of control. He suggested "the need to reexamine and revise all laws having to do with speculative activities." He announced punishments (actually punishments three times more severe than formerly) for all theft of public property and for all direct or indirect, open or secret evasion of state supervision, examination, and accounting. (Footnote 8) (op. cit., p 532).

(3) Need for good handling through commodity production of the problem of a link up with the peasant economy. Lenin maintained that "the full significance of the NEP (people frequently search for this significance in Chinese newspapers and magazines without finding the right answer) lies in and exists only in the need to find that kind of new economy linked to the peasant economy that can be built only by our use of very great strength." (Footnote 9) (*Selected Works of Lenin*, Vol 4, p 618.) This link had to be better than the link in capitalist society. "The peasants are familiar with markets and with business. We cannot directly institute distribution along communist lines because we still do not have enough factories and equipment. Therefore, we must supply through business, but what we supply can be no less than the capitalists; otherwise, the people will not tolerate such control." (Footnote 10) (Op. cit., pp 651-652).

Earnest understanding of the foregoing thoughts of Lenin holds important significance for us today in carrying out reform and opening to the outside world, and in taking a distinctively Chinese socialist road.

Finally, the Study of Leninism Helps Us Firm Up the Building of the Ruling Party and the Building of State Political Power for the Development of Socialist Democracy and the Perfection of the Socialist Legal System in the Building of a Distinctively Chinese Socialist Democratic Government.

Lenin proposed the use of revolutionary means to seize political power followed by development of socialist productivity on the foundation of a worker-peasant regime and the Soviet system and by overtaking the

capitalist frontrunners. Serious attention to party building, serious attention to the building of state power, and serious attention to the enormous reaction of the superstructure on the economic base were fresh characteristics of Leninism.

Lenin believed that in the struggle of the proletariat, the leadership of the party had to be strengthened to seize power, and that for the proletariat to lead economic construction, the party's leadership must also be strengthened. He said, "A party that is not like iron and tempered in battle, a party that is not believed in by people completely loyal to their class, a party that is not skilled at determining the feelings of the masses, and a party that is not skilled at influencing the feelings of the masses will find it impossible to carry out this struggle successfully." (Footnote 11) (*Selected Works of Lenin*, Vol 4, p 200). Lenin's ideas for party building are extremely rich. They contain three main points as follows: First is the rule of the party leadership nucleus; second is the ideological building of the party to increase party spirit; and third is the party's democratic centralization organizational principle and strict discipline. These were all basic elements in the Leninist party's triumph over enemies and surmounting of difficulties.

Once the Soviet regime was established and the CPSU became the power-holding party, inevitably problems arose over the relationship between party and government. Lenin emphasized the "need first to openly recognize the Communist Party's political leadership" (Footnote 12) (op. cit. p 366) in the regime, while avoiding the formation of an incorrect relationship between the party and the government in which the party replaces the government. In this regard, he subsequently also raised the problem of rectifying and reforming relations between the party and the government. On the issue of improving state relations, Lenin proposed a correct policy which emphasized doing small things well rather than being anxious to succeed in many things. He believed it was necessary to do more in the way of studying professional knowledge to improve people's work quality and abilities. He resolutely opposed the tendency toward bureaucratization in state organs. By way of opposing bureaucracy in state organs, he proposed the establishment of a worker-peasant inspectorate, the development of socialist democracy, and the perfection of the socialist legal system as measures for improvement of the socialist superstructure. Lenin believed that once the proletariat seized power, it could not build its own power out of thin air. Its "first task is to transform our utterly useless state organs handed down intact from the past. During the past five years of struggle, we have not had the time nor were we able to take the time to transform these organs conscientiously." (Footnote 13) (*Selected Works of Lenin*, Vol 4, p 687). Regrettably, because of his untimely death, Lenin was unable to put into practice the systematic transformation work that he devised.

Today the socialist countries find themselves in the midst of changes. In China, as reform of the economic

system advances, a corresponding reform of the political system must also be undertaken. Comrade Deng Xiaoping said: "The goal in reform of the political system is, generally speaking, the eradication of bureaucratism to stir the zeal of the people and units at the grassroots level. Reform is to be used to handle the relationship between the rule of law and the rule of men in China, and to solve the relationship between the party and the government. The party leadership cannot waver, but the issue of how to lead the party must be put on the daily agenda. The party must be adept at leading, and the party and the government must be separate." Diligent study of Lenin's theory on bolstering the building of the party, of his ideas on better supervision by the people, of his commentary on opposing bureaucratism, and of his ideas about socialist democracy and the legal system provide valuable reference for a deep understanding of the political system reforms that Comrade Deng Xiaoping advocates.

Socialist political system reform is the self-modification and perfection of the socialist superstructure. Rejection of reform and fear of reform are wrong. This is because "we have never forgotten for a minute that, in the past and today, we have had many setbacks and made many mistakes. Was it possible to not suffer setbacks and to not make mistakes in this new cause, historically unprecedented in the entire world, of founding a new state system that heretofore never existed? Despite all setbacks, we are determined to strive to correct these setbacks and mistakes, changing the situation in which our application of the principle of soviets fell short of the acme of perfection." (Footnote 14) (*Complete Works of Lenin*, Vol 42, pp 172-173.) However, reform is positively not system reform. Reform is not abandonment of the leadership of the CPC and abandonment of socialism in order to take the democratic socialist road that leads to capitalism. This course is what hostile Western forces and agents of bourgeois liberalization want. If one says that Lenin's main divergence from the social democrats back then was about the nature of the party to be founded and about whether it was possible to carry out a socialist revolution, build a dictatorship of the proletariat, and take a socialist road in an economically and culturally backward country, then given today's new historical conditions, our opposition to the bourgeois liberalization trend of thought continues to be expressed on this fundamental issue.

Deng Weizhi Discusses Meaning of Social Stability

91CM0565A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 8, 15 Aug 91 pp 43-45, 18

[Article by Deng Weizhi (6772 0251 1807) of the Institute of Intelligence Research, Shanghai Academy of Social Sciences: "The Dialectics of Social Stability"]

[Text] Social stability and political stability are two related but distinct concepts. Social stability has a broader connotation than political stability. Political

stability usually means the stability of a nation's political power and political system, while social stability includes not only social issues related to the governing of a nation but also ethnic and religious matters as well. Social stability may be studied from many angles and through the use of knowledge from many different fields of learning. In this article, I plan to approach it from the philosophical angle, discussing several dialectic relationships in social stability.

The Goal of Genuine Social Stability

Simply stated, the goal of social stability is the prosperity of the country and the tranquility of the people.

1. A Discussion of the "Tranquility of the People." The need for security is a basic human need. A common saying goes, "The people regard food as heaven itself." I would like to add that the people regard peace as the earth itself; peace is frequently more important than food. During times of extreme disquiet, people may even not eat in order to escape grave peril and find peace again. The Chinese people who have had their fill of wracking hardships urgently need peace and stability. Making every effort to bring about social stability is a duty to the people. Only a party and government that has a high degree of responsibility to the people can elevate social stability to its present importance to understand it, publicize it, and conduct academic study of it.

2. A Discussion of the "Prosperity of the Country." Social stability is a requirement and a climate needed for national construction. The stimulation of the munitions industry that it provides aside, the turmoil and chaos of war inevitably inhibits industrial and agricultural production, and is bound to throw into turmoil the rational structure and make-up of the national economy. Only a state machine that holds internal repression and external aggression to be its function can relish provoking incidents and creating the chaos of strife, thus starting wars that squander wealth. Ours is a socialist country and a developing country. We urgently need productivity to develop socialism. Even though great controversy still exists on the issue of whether or not social productivity is the ultimate standard for judging truth, there can be no doubt whatsoever that social productivity is the standard for judging production relationships. Therefore, the purpose of creating social tranquility is, indeed, to promote the development of social productivity; it aims to do more to make the most of the advantages of the socialist system, to increase national strength, and to make China the most powerful socialist country.

3. Social Development Is the Ultimate Goal of Social Stability Social stability poses the question of stability at what level. During my surveys of regions in the final stage of a matriarchal society, I saw with my own eyes that their societies were stable, but that the base point for stability was low. Social stability differs at different stages of development and at different levels of productivity. The social stability that we are discussing today must be a high level of stability; it must be stability

maintained during the course of development. Standing still and refusing to make progress, remaining in a rut, and cherishing the outmoded and preserving the outworn is not the kind of stability we need. The three integral parts of Marxism, or rather the individual integral components, are permeated with the word "transform." Concrete analysis of concrete things is the soul of Marxist philosophy. Transformation may be deemed the place where the whole soul of Marxism dwells. Slight transformation and stability becomes adherence to old ways. Our repeated reiteration of constant reform and opening to the outside world shows that we seek development while maintaining stability, and that we seek new stability and a higher level of stability in the course of development.

Means of Realizing Social Stability

After spelling out the goals of social stability, the next matter to be dealt with is the means for bringing about social stability. To use the language of sociology, this means social control. When there is control, there is order; when there is a loss of control, there is chaos. Means of social control are numerous. Three main ones are discussed here:

1. The Law and Policies: The law is a coercive means of effecting social stability. Although the coerciveness of policies is not as great as that of the law, they too may be listed as coercive measures. The effectiveness of the law and policies in stabilizing society is dependent, first of all, on the aptness of the laws and policies, i.e., whether they truly represent the greatest interests of the majority of the people. Second, the effectiveness of the law and policies in stabilizing society also depends on the continuity, consistency, and authoritative nature of the laws and policies. Laws and policies that change unpredictably may easily lead to chaos, which is detrimental to social stability. This applies as well to the interpretation of the law and policies, which unless uniform also leads to chaos, which is detrimental to social stability. At times of leadership changes, in particular, it is necessary to guard against too great a change in laws and policies. Nevertheless, all laws and policies are man made, and they must be revised as the objective circumstances and the interests of the people change. However, revision does not mean arbitrarily overturning existing laws and policies, replacing them with others. Instead, only those that are no longer suitable should be revised. So long as a particular social system and a particular regime prevails, the basic law must be constant; additions and revisions should be only occasional.

2. Ethical Norms. Normally, morals, customs, and habits serve to harmonize, guide, and limit social behavior. We must apply to the full ethical norms, customs, and habits, which are by nature imbued with stability, as a means of stabilizing society. However, we must not forget that ethics are in the category of the superstructure, which serves the economic foundation. When the economic foundation changes, ethical norms must also change along with it. Production relationships die out to be

replaced by others, and ethical norms also die out to be replaced by others. No matter how much of an impetus they have provided in human history, the time comes when ethical norms exit from the stage of history. However, it is morals that lag the most. Society advances and policies advance, but morals often exert a drag. Backward morals, and outmoded habits and customs corrode the economic foundation. A concrete analysis of existing ethical norms must be made: Those that should be continued should be continued; those that should be abandoned should be abandoned; and those that should be elevated to become articles of law should be elevated to become articles of law. For example, abortion is illegal in some countries; in some countries it is ethical; and in still other countries it is even encouraged. Only by looking at ethics dialectically can one consciously use them to advance social stability and development.

3. Public Opinion Orientation. Everyone is aware that the news media are a powerful means of social control, but the controlling role of the news media waxes and wanes, comes and goes. News media that possess control capabilities frequently cannot control themselves; they are unable to master their own fate. The crux of the problem lies in the lack of a news code. Another matter is that the image of news vehicles changes too fast. It vacillates, now to the left and now to the right, thereby weakening news vehicles' effectiveness in exerting control. In China, news should be the voice of the party and the people, and the two voices should be unified. Only by maintaining the Marxist doctrine that everything has two aspects, making responsibility toward superiors synonymous with responsibility to inferiors, can the power of the press to control be used to full advantage.

In stabilizing and developing society, academics have a duty to assist the party and the state to build and strengthen a powerful and complete social control system that helps reduce to the minimum the harmful behavior that departs from social mores in order to help stir the vigor that is inherent in society and to help achieve the ability to control without stifling and to make lively without wreaking chaos. Chaos shows the ineffectiveness of the social control system; stifling defeats the purposes of social control. When crows do not caw, that is a bad sign. Silence among crows is more ominous than noisiness. The situation in some countries suggests that the superficial silence of the crows may very well lead to "a stunning surprise coming like a bolt out of the silent blue."

Keeping Society in Appropriate Balance

Unfairness breeds grievances; fairness brings tranquility. Two things are purposely displayed in a Confucian Hall. On the right is a bottle [ping], and on the left is a mirror [jing]. Reportedly, this signifies a quest for tranquility [pingjing]. When there is fairness [ping], there is calm [jing]. Social balance connotes mostly the following several levels of meaning.

1. Straightening Out Relations Among Strata. Society is stratified, divided into classes, and divided into levels. In socialist countries, the distribution of benefits to all classes and all levels should embody the principle of from each according to labor. It is on the basis of the amount of individual labor expended that the distribution gap is widened as it should be widened. If the gap should be widened, it is widened. Absolute egalitarianism without regard to the amount of individual labor performed is detrimental to the stimulation of initiative, and is ultimately detrimental to social stability. Of course, if the distribution gap is not rational, those who should receive more get less and those who should receive less get more. This hurts even more the stimulation of initiative, and it is even more detrimental to social stability. At the present time, solving and overcoming the problem of devaluing knowledge in China is an important move for straightening out relationships among different strata.

2. Keeping Open the Channels of Social Fluidity Running water is never putrid. Social fluidity is absolute. Both horizontal flow and vertical flow are an organic expression of society. Attempts to stifle social fluidity inevitably lead to an errant flow, a turbulent flow, and a backward flow. This leads to social upheaval. We have learned many lessons in this regard during the past several decades. Many disorders were the result of bottling up; others came from prohibitions; and still others stemmed from arbitrary uniformity. Nevertheless, we must also appreciate another lesson at the same time, and that is that many disorders are artificially created. They result from people making much ado; they spatter forth when a drop from one level to another is too great; they blow in on a sudden gust of wind; or they stem from enticing the snake out of its hole. Naturally, we also have positive experiences in social fluidity. Whenever we have noticed that the flow of society is in a correct direction, we have made sure that the volume of flow and the speed of flow are right. Thus, at such times, a confused social order is made orderly.

Social balance is a large field of study. In a broad sense, social order includes a balance between production and consumption, a balance among politics, economics, and culture, an interregional balance, etc. However, balance can only be in general and of short duration. A society's advance also destroys balance in some regards after which a new balance is attained. This is the only way to achieve positive balance. Negative, false, and coercive balance is more frightening than imbalance.

Correct Handling of Social Clashes

Every stable society has social conflicts. There is no such thing as a society without contradictions or conflicts. The question is how we deal with social conflicts.

1. Social Conflicts Can Be Predicted. Chinese used to say frequently that "When it is going to rain, or when a girl wants to marry, nothing can be done about either!" Understood in terms of inevitability, this is a correct

statement. Although we are not fortune tellers, neither are we fatalists. With the development of futurology and the quantification of the social sciences, social conflicts have become predictable.

Several indicators for forecasting social conflicts:

The first is the economic factor. "When food is at hand, there is no desperation in the heart" runs an old saying that is true. Conversely, when food is not at hand, there is desperation in the heart, and disorders can easily occur. Thomas C. David said in a book titled *On Revolutionary Theory* that when the gap between people's expectations and the actual fulfillment of these expectations, which is to say the gap between what they want and what they are getting, suddenly widens, social clashes may easily occur. What is meant by "suddenly widens"? It means that people's appetite for consumption rises as the economy continuously grows, but later on should the economy suddenly slump, when the difference between what they want and what they are getting exceeds their tolerance, social conflicts erupt. Naturally, this "tolerance" is not entirely the same for different peoples and different places.

The second is the belief factor. According to the analysis that Tuokeweier [2094 0344 4850 1422] provides in his book titled, *The Ancien Regime and the French Revolution*, when dissident political views prevail despite repeated prohibitions and when political jingles suggesting a crisis of confidence abound, the time for an eruption of social conflicts is not far off. Vacillation within the ruling group about dissident political views, which is to say a wavering of beliefs, warns of impending social conflict.

The third is the self factor. According to the analysis of Snyder and Dilie [5530 0441] in their jointly authored book titled, *The French Revolution and Collective Violence*, the degeneration of the ruling group's self, particularly the corruption of the leaders of the ruling group, is the most important factor leading to social conflict. The depth of degeneracy determines whether the social conflicts occur earlier or later.

The fourth is the organization factor. According to the analysis of historian Bulindun [1580 2651 7319] in his book *Revolution Dissected*, which was published in 1965, when frictions occur between the group holding a ruling position and neighboring or, in other words, rather friendly groups, social conflict will be rather quick in coming. In particular, the involvement of intellectuals and the prominent figures among them will hasten the arrival of intense social conflict. The number of people involved is an important basis for figuring how soon social conflict will erupt.

The rising wind forebodes the coming storm. Although scholars in different disciplines still dispute the percentage roles of the foregoing several indicators in the onset of social conflicts, there is no difference of opinion whatsoever that these four indicators lead to the onset of social conflict. Naturally, the foregoing results of studies

done abroad are not entirely applicable to China. They can only serve to help us make judgments.

2. Social Conflicts Can Be Transformed. We do not wish for outbreaks of social conflict. However, as dialectic materialists, once social conflicts occur, we must learn how to solve them. Depending on the strength and intensity of social conflicts (by strength is meant the means that both parties to the conflict use; and by intensity is meant the number of people and the levels of society embroiled in the conflict), we must find ways to moderate social conflicts by turning hostility into friendships. Social conflicts that cannot be quickly defused will certainly damage society. Under these circumstances, a dialectic materialist must learn how to turn adversity into good fortune. One way of changing evil into good is to use social conflicts to rid oneself of any odium. A second way is to divide and demoralize the opposition by making contact with some people on the opposite side

to achieve an understanding because "without disagreements there can be no mutual understanding." A third way, once the social conflicts have been quelled, is to come to the realization that "by allowing the enemy to exist, we eliminate catastrophes; by eliminating the enemy, we ask for calamity." Every effort must be made to avoid committing a mistake or at least to avoid committing a major mistake.

The above analysis of social conflict proceeds from the assumptions that the rulers and leaders are correct and that problems are considered from a position of maintaining the interests of the rulers. If the rulers are not correct, that is a different matter. Then the distinction between just wars and unjust wars of Mao Zedong must be employed.

Society advances along a tortuous road leading from "stability to development, to clashes, to more stability, and to more development." This is the philosophical view of history that we must hold.

NATIONAL AFFAIRS, POLICY

Shanghai Enterprise Reorganization Warrants Study

91CE0672A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 6, 5 Jun 91 pp 31-34

[Article by Liu Gang (2692 0474); Editor: Shen Zhiyu (3088 1807 3342): "Shanghai's Enterprise Group Reorganization as a Valuable Case Study in Power Mergers"]

[Text] I investigated the reorganization of Shanghai's enterprise groups through "power mergers" early in the spring of 1991, finding that the guiding ideology, methods, and results of this type of group reorganization warrant the attention of all parties, and also contain valuable lessons for other provinces and cities with solid industrial bases.

I. The Reasons for Shanghai's Enterprise Group Reorganization

As the birthplace of China's modern industry, Shanghai has a growth history of more than 100 years, during which time it has evolved into a rich technological and material base with many industries and complete product categories. While it had experienced rapid industrial growth in the 40 some years since liberation in particular, achieving by 1988 a GVIO [Gross Value of Industrial Output] of 108.27 billion yuan, or 49 times that of 1949, its general industrial expansion had also generated certain unfavorable factors. As it had 12,431 independently-accounted industrial enterprises above the township level, of which only 247, or 4.1 percent, were large ones, its enterprise organizational structure suffered from the following defects of being too "decentralized," "self-contained," and "disordered":

1. Too decentralized: That is, the degree of centralization of Shanghai's production operations had dropped. For instance, while it had seven factories that manufactured washing machines, they had a combined annual output of only 1.5 million machines, while the Zhongshan Washing Machine Factory in Guangdong alone had an annual output of 1.2 million machines. Its refrigerator factories were like "four great door gods" standing on an equal footing. And its TV manufacturers were in open competition like "five-leaved clovers," with a combined annual output of only 1.1 million machines, while the Japanese Star Enterprise Group alone had an annual output of 14 million machines. Shanghai's TV manufacturers were divided between the two general departments of instrument and meter electronics and space-flight which, in addition to the various models of imported equipment, caused phenomena, such as calibration problems, poor parts interchangeability, and high product costs. This gave them a price disadvantage in even domestic market competition, not to speak of breaking into the international market. This too loosely organized enterprise structure was severely limiting Shanghai's industrial growth.

2. Too self-contained: That is, its enterprise status quo of being either "large and complete" or "small but complete" had not clearly changed, and its degree of specialized cooperation was in urgent need of upgrading. As its enterprise organizational structure was made up mostly of single enterprises, in addition to problems, such as the wide profit gap between entire-machine and parts plants, general and technical accessories plants, and major product and auxiliary production plants, most enterprises preferred to be "rooster heads" rather than "pheonix tails." As the ratio of entire-machine plants to parts and technical accessories plants in the electronics industry was 7:3, most of the industrial bureaus that suffered the greatest difficulties were specialized technical accessories and parts production plants.

3. Too disordered: That is, its enterprise organization was too disordered. In general, while Shanghai's enterprise organizational structure was still made up mostly of independent enterprises, its management was based on subordinate relations (Central, municipal, district, county, and township) and departmental divisions, which had severed the former proper inherent economic and technical ties among enterprises with various subordinate relations, ownership systems, and departmental divisions. This conflict had caused the following three glaring problems: 1) The barriers among various industrial sectors had not been broken down, which had hampered the establishment of cross-sectoral links. 2) The industrial sector was poorly integrated with other economic and technical sectors. The organizational structures of only one-tenth of Shanghai's independent scientific research institutions were integrated with industry, and they were confined within primary administrative department jurisdiction alone. 3) There were shortcomings in enterprise organizational form options, and the three phenomena coexisted of the continued use of the same factory management models, the abuse of corporation regulations, and unchecked group organization growth. After 59 administrative corporations were eliminated in 1986, various dynamics had led to the formation of over 150 enterprise groups throughout Shanghai by the end of 1989. While these enterprise groups played a certain role in areas such as enhancing specialized cooperation, making brand-name quality products more competitive, and increasing export earnings, their structures generally contained the following severe defects: 1) Their core entities were not secure, with most core enterprises being joint corporations organized in a token shareholding form, with very nonuniform relations among internal duties, rights, and interests. 2) They were small in size and single-purpose in field of operation; 3) They had too loosely organized internal structures, lacked stability, and were linked irrationally. Most had neither parent companies to play a leading role, nor capital bonds to tie interrelated enterprises together in forms, such as stock control or participation through investment. 4) Their enterprises were not joined together in a rational manner. As they did not have uniform planning suited to the demands of regional distribution, industrial structure, and product

mix, a closed group form emerged, in which large enterprises were in independent confrontation with groups made up of small enterprises, and only a single product was produced.

II. The Guiding Ideology and Methods of Shanghai's Enterprise Group Reorganization

China's huge market fluctuations in 1989 clearly weakened the advantages of Shanghai's manufactured goods on domestic markets. How was Shanghai's industrial might restored? In addition to developing Pudong to attract foreign investment, Shanghai's government and enterprises both felt the urgent necessity to readjust their enterprise organizational structure, in order to make enterprise groups better suited to the demands of industrial structure and product mix and more standardized. In August 1989, Mayor Zhu Rongji proposed the following five principles that were to be observed in enterprise group reorganization throughout Shanghai: 1) enterprise group reorganization had to contribute to specialized cooperation, the development of operations of scale, the bringing of industrial advantages into full play, and the promotion of coordinated industrial growth; 2) it had to contribute to the readjustment of product mix, the promotion of technological advances, and the development of new products; 3) it had to help Shanghai break into the international market and develop an externally-oriented economy; 4) it had to help bring the combined role of central planning and market forces into full play, and contribute to the development of a socialist planned commodity economy; 5) it had to be in line with the four basic principles, and enhance the party's leadership and ideological and political indoctrination.

Using these five principles as its guiding ideology, Shanghai's leadership emphasized pilot and demonstration projects, its system reform office made policy suggestions, and its economic commission emphasized organization and implementation. Based on their own studies and in line with Shanghai's actual conditions, Shanghai's economic commission and system reform office proposed the "Suggestions on Industrial Enterprise Group Formation and Development" (in 26 articles), as regulations to implement group reorganization. After they were approved by the mayor's office, Shanghai's economic commission was given full power to examine and approve enterprise groups. As the group reorganization involved 11 departments, such as Shanghai's industry and commerce administration bureau, banks, tax bureau, and statistics bureau, it could not have been carried out successfully without the personal promotion of pilot projects by the municipal leadership, and the full responsibility for organization and implementation being given to the Economic Commission. In order to reduce friction and speed up the pace, the municipal party committee organization department and industrial party committees held joint meetings to study the installation of the reorganized enterprise group leadership. The original enterprise groups' leadership "standings," group "colors," and product "trademarks"

were all dealt with carefully and taken into overall consideration. By January 1991, Shanghai's economic commission system contained 36 directly accounted enterprise groups, which included 492 enterprises, accounted for 33 percent of locally budgeted state-owned enterprises, and had an output value of 20 billion yuan, or 40 percent of Shanghai's GVIO.

III. The Key Features of Shanghai's Enterprise Group Reorganization

1. "Power mergers" have become the basic form of Shanghai's enterprise group reorganization. These so-called "power mergers" are mergers of certain enterprises that have equally key standings or economic and technological might in their respective industries. They are a form of merger that was adopted to counter the defects of Shanghai's enterprise organizational structure of being too "decentralized," "self-contained," and "disordered." For instance, the Zhengtai and Dazhonghua rubber plants were well matched in strength, and had already been organized into the Huili and Shuangqian groups, respectively. While their combined tire production in 1989 was 2.56 million tires, the international tire production scale was generally 6-7 million tires a year, and the world's 10 largest tire companies all had annual outputs of more than 10 million tires. As these two groups were both planning to set up new plants in the vicinity of the Minxing District, it was discovered that they could save 40 million yuan in investment and avoid duplicate construction if they merged and made uniform plans. Making full use of both plants' technical forces would allow them to increase their export earnings and bring their overall advantages into better play. Shanghai's reorganized groups in areas, such as tire rubber, radio and TV broadcasting, and bicycles, rank first in China in areas, such as output, sales turnover, and realized profits, and have clear advantages in their respective industries.

2. Practicing the "four uniforms" has strengthened Shanghai's enterprise group cores. Historical factors had left most of Shanghai's industries made up of mainly small- and medium-sized enterprises. In order for reorganized enterprise group cores to have strong radiation capabilities, it was usually necessary for several, dozens, or even up to 100 enterprises to practice coordinated capital management. It would have been bound to be difficult to accomplish this successfully "step by step," because the psychological conflicts among enterprise rights and interests would have been too great, and external policies were incomplete. Thus, Shanghai drew on its experience in establishing business corporations, by adopting the "four uniform" method. That is, it formed all group corporation units into corporations, by practicing uniform overall operations contracting, uniform settling of accounts, uniform linking of payrolls to economic efficiency, and uniform borrowing and repayment of capital construction and technological upgrading funds. When collectively owned enterprises joined group cores with the approval of the municipal planning and economic commissions, the method of

compensated merger was used to change their form of ownership to state-owned enterprises. The state treated all enterprises that joined group cores and practiced the "four uniforms" as new enterprises formed through enterprise mergers. Upon examination and approval by the Shanghai Economic Commission, groups that registered with the Industry and Commerce Administration Bureau (with registered funds being the sum of the registered capital of all of the corporation's units), opened a single bank account (some groups sent in enterprise report forms in the name of their corporations, and were classified as large class-1 enterprises), had their management classified (some groups were evaluated as national grade-2 enterprises), and implemented plans (with plan assignment and assessment being turned over to the group corporation), were considered to have satisfied the intent of the "four uniforms," which was essentially that the corporation uniformly accept the economic responsibility to the state of all of the units in its group core. As to internal management relations, corporations adopted the same form as parent corporations managing their independent offshoots, with all of the groups member enterprises retaining their former corporation standings. The 36 groups that are now practicing the "four uniforms" are being given a "grace period" in which to make a gradual transition to the "six uniforms" of production, supply, marketing, manpower, finances, and material. This transition step shows Shanghai's creativity in suiting its actions to China's actual conditions.

3. Adopting a shareholding system form has rationalized Shanghai's group capital relations. Since 1987, 11 pilot projects in shareholding system enterprise groups have been underway in Shanghai, and the state has recently approved the continued development of shareholding system pilot projects in Shanghai and Shenzhen. The practical conditions of mostly socialist public ownership coexisting with diversified economic components, and diversified enterprise investment sources, have provided the objective environment for the existence and development of issuing and selling shares to raise funds through a shareholding system form. In 1987, in order to raise the 500 million yuan in capital needed for a color video display terminal project, the Shanghai Vacuum and Electronic Components Shareholding Company, Ltd., issued to the public 50 million yuan worth of shares, and formed a joint venture with the Hong Kong Wing Sun Technological Development Corp to establish the Shanghai Yongxin Color Video Display Terminal Company, Ltd., of which it held 75 percent of the stock rights. It now has shares worth 200 million yuan, has invested in the establishment of offshoot companies in which it controls stock in places, such as Zhuhai, Shenzhen, and Xiamen, and has invested in shares in the Shanghai branch of the Communication Bank of China. Using capital as its bond not only has rationalized the capital relations within this group, but also has enhanced its economic might, and moved it toward more diversified transregional and transindustrial operations. The Shanghai Bicycle Factory established the Yongjiu

Bicycle Suzhou Shareholding Company, Ltd., in which the Suzhou Bicycle Factory bought shares with the fixed assets of its collective enterprise and its own funds, and the Shanghai Bicycle Factory became a shareholder with its "Yongjiu" industrial property rights (accounting for 35 percent of the shares) and some other money. As its shareholding funds have increased year after year, the Shanghai Bicycle Factory holds 51 percent of this company's shares five years later, which has resolved its management relations in one operation. That is, as the parent company, the Shanghai Bicycle Factory has acquired stock control over the Suzhou company, with which it shares risks and profit distribution according to stock rights percentages.

4. Increased export earnings have become the strategic objective of Shanghai's enterprise group development. The increasing economic regionalization and groupings of the world of today are forcing Shanghai's enterprise groups to become more externally oriented. Faced with "domestic market pressure and international market potential," a number of groups have made sharply increasing export earnings, using foreign investment actively, and setting up and running factories overseas, the strategic objectives of their group expansion. As the Shanghai Radio and TV Group, which is composed of seven units, such as the Shanghai No 1 TV Factory, plans to increase its export earnings during the Eighth Five-Year Plan and over the coming decade from \$36 million in 1990 to \$500 million by the year 2000, it has made plans to establish a "10 uniforms" management system. That is, uniform planning, export trade marks, international registration, export prices, export product development, duty-free warehouses, overseas purchasing, sales, and service points, and export earnings target assessment.

IV. The Results of Shanghai's Enterprise Group Reorganization

1. Shanghai's enterprise group reorganization has adjusted and optimized its enterprise organizational structure, speeded up its specialization reorganization, and formed a better economy of scale. As its production operations were not intensive enough, the former Shanghai Automobile and Tractor Joint Corporation observed the principles of "raising minimum standards, specialization, and mass production," by reshuffling its internal organizational structure, optimizing the composition of its key production factors, and establishing the Shanghai General Automobile Corporation. This performed the function of its investment decisionmaking center, its specialized offshoot companies (general factories) performed the function of its profit center, and its subsidiary factories became its production and quality control centers. Since the Electric Wire and Cable Group was founded, it has brought the advantages of combined operations into full play, broken out of its "lopsided" supply and marketing cycle, made "overall" plans for technological upgrading, developed a "uniform channel"

for foreign exports, and improved its economic efficiency. Its 1990 export earnings were \$12 million, or 43.9 percent more than in 1989.

2. It has made a more rational use of accumulated capital through combining the advantages of group member enterprises. As the Baogang General Steel Plant, the core enterprise of the Baogang Steel Group, was a particularly large enterprise with an investment of tens of billions of yuan, it was hard for it to adapt to the needs of diversified variety and small batch production operations. So this group formed a joint shareholding venture with the Nanjing General Steel Rolling Plant and the Changzhou Iron and Steel Plant as its partners, to whom it supplied raw materials and funds with which to manufacture marketable products that were in short supply.

3. It has promoted the integration of research with production, and speeded up the pace of technological progress. Most of the reorganized groups are integrated with scientific research institutes. The Vacuum and Electronic Components Shareholding Company, Ltd., has also set up four new research institutes in its subordinate factories to speed up product development. Since the Rubber Tire Group was formed, it has unified its research plans and pooled its applied research funds, which not only has enabled it to avoid duplicate importing of equipment and save 40 million yuan in investment, but also has increased its profits by 10 million yuan a year.

4. It has centralized enterprise organization, which has contributed to the enhancement of state macroeconomic regulation and control. Shanghai's 36 reorganized enterprise groups constitute a decisive share in their industries and even throughout China in areas, such as fixed assets, GVIO, sales turnover, and realized profits. The State Council decided recently to include 100 large enterprise groups in its planning agenda. As many of Shanghai's recently reorganized groups conform to State Council demands, including them in state plans could ensure the orderly operation of a multitude of enterprises according to national industrial policy.

V. Lessons Learned From Shanghai's Enterprise Group Reorganization

1. "Power mergers" are an effective form of enterprise group reorganization. With the promotion of the Shanghai government leadership, in line with the demands of national industrial policy, regional distribution, and the optimization of enterprise organizational structures, and with a clear guiding ideology and effective steps, Shanghai has achieved gratifying results by reorganizing its over 150 enterprise groups that were formed in recent years. While this reform exploration has been very bold and exemplary, the "power merger" form is naturally not suited to all industries in every region. It is suited mainly to regions and cities where government authority is strong, and to industries where enterprise organizational structure is too decentralized,

it is difficult to form economies of scale, and it is hard to put preferential industrial policies into place.

2. While the "four uniforms" was an appropriate transition step, it is certainly not a suitable goal model. Shanghai acted in line with its actual conditions, by using a transition method of uniform contracting, settling of accounts, linking of payrolls to economic efficiency, and borrowing and repaying of technological upgrading funds in its enterprise group cores, which gave their group members a "grace" period. While this was a safe and suitable method that helped to resolve conflicts and alleviate transition problems during the period of economic improvement and rectification, it is not a suitable goal model. This is because it was still necessary to gradually move toward the "six uniforms" of production, supply, marketing, manpower, finances, and material, and to finally form closer mergers bonded by capital, by making the transition to a higher-level and more standardized form.

3. The setting up of shareholding systems can be regarded as a key step in improving enterprise group organizational structure. Most of Shanghai's enterprise groups with well-coordinated domestic and foreign relations and well-performing functions have set up shareholding systems. This not only has clarified and standardized enterprise property rights organization, but also has genuinely separated ownership from management and government administration from enterprise management, and helped to overcome the bureaucratic tendencies of enterprise groups. While markets have been soft and money has been tight in particular, shareholding systems have helped to diversify investment sources and resolve certain problems of poor enterprise management and severe losses. As shareholding systems can clarify property rights relations, they are also a good way to break out of the "three constants" bind.

Thoughts on Promoting the Shareholding System

91CE0671A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 5, 5 Jun 91 pp 35-38

[Article by Wang Honglin (3769 3163 2651): "Thoughts on Promoting the Group Shareholding System"]

[Text] I. Conflicts Currently Facing Trial Implementation of the Shareholding System

The factors motivating enterprises to carry out trial implementation of the shareholding system are many, including: the urgent need of enterprises to clarify equity rights; their desire to convert the underwriting of risk by workers and employees into the ownership of stock by workers and employees; their need to spur implementation of the tax sharing system and thereby standardize relations between enterprises and the state; the impulse toward wide ranging fund raising activities for the purpose of implementing technological upgrades in enterprises; as well as the need to establish joint-stock groups, expand markets, and use the shareholding system to restructure the enterprise management system. Although

the reasons for a trial implementation of the shareholding system are many and urgent, there are three conflicts which will inevitably arise during the course of this trial implementation.

1. The Conflict Between the Effort To Bring Internal Relations Into Balance Versus the Effort To Expand External Markets

All enterprises implementing the shareholding system on a trial basis will face two problems. First, the currently existing interrelationships between the owners, managers, and laborers in an enterprise must be restructured. In other words, the shareholding system must be used to regulate the state's relations with enterprises and individuals. Second, the external relationship between enterprises and the providers of funds must be restructured so as to attract external funds and expand market share. Analyzing the current state of enterprises, expanding external markets is of greater practical significance. For this reason, the reason for bringing internal relations into balance is in order to readjust external relations. However, the current problem lies precisely in the fact that the serious obstacles that will be encountered during efforts to bring internal relations into balance will affect ability to attract funds and expand markets.

Analyzing the internal relationships in enterprises, there have been three types of shareholding systems implemented on a trial basis in China in the recent past. First, a system of shares for workers and staff. These systems have skirted the issue of asset ownership, issuing stock to workers and staff. This shareholding system has done nothing more than open up a third channel of consumption funds distribution in addition to wages and bonuses. In essence, the stock held by workers and staff is equivalent to enterprise bonds (all income, no risk). The shareholders have an extremely strong desire for dividends, and the growth in consumption funds thus triggered inevitably leads to administrative control by the state, which in turn leads to a conflict between the tendency of enterprises to distribute high dividends versus strict state control. Second, there is the system of shares for managers. Because a portion of the added value of enterprise assets reverts to enterprise ownership, state stock has in reality always been treated as bonds, used only for distributing bonuses and not for adding value (in some cases, different owners of the same type of stock have even received different benefits). Enterprise operations have violated the fundamental rules of the shareholding system (for example random changing of shares apportioned or lowering the dividend rates for outside shareholders). The rights of other shareholders have been clearly infringed upon, and it is unlikely that the interest relationship between enterprises and the state will truly be brought into line with regulations. Third, there has been a shareholding system for state ownership. Although this type of shareholding system seeks to establish a model in line with regulations, different administrative organs have continued to pursue their own interests because the restructuring of the functions of state organs at every level has yet to take

full effect. For example, various responsible organs have used their administrative authority to select enterprise board members; organs in charge of fiscal policy and the management of state-owned assets might take advantage of their administrative authority to participate in the assessment of assets and division of equity rights; tax and labor organs have withdrawn concessionary policies which they had previously extended to enterprises; etc. Such actions have led to ever-increasing state interference in enterprise activities. This, first of all, is the conflict which most trial implementations of the shareholding system have run into. The interests of the state, as owner, are the point of departure for all state organs, and they strive to establish a shareholding system that will maximize their own interests, with the result that not only is state interference in enterprise activities strengthened, but the interests of enterprises, workers, and staff are affected in various ways. For this reason, enterprise management can only resort to irregular forms, such as enterprise stock, and worker and staff special bonus stock, in order to offset the influence of the state. The conflict between independent enterprise management and strengthened state ownership makes it very difficult to bring internal enterprise relationships into balance.

As previously mentioned, the main reason why enterprises are promoting the shareholding system is in order to expand markets. In other words, enterprises are always trying to attract funds by means of the shareholding system and to restructure the utilization of production factors by setting up enterprise groups, thereby controlling markets for production factors and commodities in order to adapt to the market competition of the middle and late 1990's. However, due to multiple conflicts in internal enterprise relationships, those implementing the shareholding system may not have the time to concentrate on the readjustment of external relationships due to their involvement in internal conflicts. At the same time, compromises between various internal interests could result in the establishment of a shareholding system that is at odds with international precedent, thereby posing an obstacle to the influx of external funds. For this reason, the need to balance internal enterprise relationships in accordance with actual conditions is indeed a nettlesome problem for enterprises, which urgently need to expand external markets.

2. The Conflict Between Concessionary Policies Under the Contract Responsibility System Versus the Superiority of the Shareholding System

The implementation of the contract management responsibility system greatly raised the economic benefits produced by enterprises. The ability of enterprises to repay loans was clearly strengthened, and the per capita income of workers and staff rose continually. The state, enterprises, and workers and staff all benefitted under the contract system. However, because economic fluctuations have been relatively severe since last year, market trends have been difficult to predict and it has been

difficult to determine how to maintain the contract system into the 1990's. Enterprises hope to subject relations between the state and enterprises to a set of regulations as soon as possible, and to use diversification of stockholders to set up a system of checks and balances between owners, managers, and laborers. However, there are four conflicts inherent in a shareholder system set up in reference to a contract responsibility system. First, the two systems distribute profits very differently. Since trial implementation of the shareholding system began, enterprises have not only had to deliver an income tax of 30 percent, but they have also had to distribute dividends on state-held stock. In comparison with the contract responsibility system, the profits of enterprises could be drastically reduced and the pressure upon enterprises would become much greater. Second, the two systems distribute income to workers and staff in very different manners. Since the trial implementation of the shareholding system, there has ceased to be any linkage between total wages and economic benefits. Not only has this reduced total wages, it has inevitably given shareholders an interest in holding down the distribution of wages to workers and staff. Third, the system of management has undergone changes. Since the trial implementation of the shareholding system, reform of state management authority over assets has not been yet carried through to completion. If governments at the central, provincial, and municipal level all get their own people named as board members, state interference in enterprise decision-making processes will be strengthened. Fourth, the added value of assets has undergone a change. Enterprises are going to switch over from pre-tax repayment of loans, which was standard under the contract responsibility system, to after tax repayment of loans under the shareholding system. Shareholders will thus have to be responsible for all of the enormous burden of loan repayment. This undeniably makes it difficult to promote the shareholding system. If it is possible to take care of interest relationships in the area of taxes, dividends, loan repayments, and wages (in other words, if an irregular contracting mechanism can be maintained within the context of a shareholding system), then the state's surrender of its interests could only benefit new external shareholders, which would lead inevitably to conflicts, since different shareholders would receive different benefits. It is apparent that enterprises are between a rock and a hard place regarding the decision of whether to establish a regular shareholding system or to maintain an irregular method of contracting within the context of a shareholding system.

3. The Conflict Between Perfecting the Mechanism of Enterprise Operations Versus the Effort To Bring the Role of Enterprise Groups Into Play

Another important objective of enterprises in implementing the shareholding system is to perfect their own operation mechanism. There are two issues involved. First, enterprises at this point lack the funds for development, and implementation of a shareholding system could attract large amounts of funds and help them out of their difficulties. Second, there is an urgent need to

change enterprise operating mechanisms. It is necessary to establish the type of management that comes with a shareholding system and to rely upon the effective oversight of shareholders who have their own funds in the enterprise in order to resolve such problems as the iron rice bowl, the big rice bowl associated with our system of distribution, competing for material benefits, cronyism in the job assignment system, etc. In short, what is lacking for enterprise development is money (the funds shortage), and what we have too much of is people (surplus labor). The objective of the shareholding system is precisely to get enterprises to completely overhaul themselves and to promote the perfection of the enterprise operations mechanism.

However, as enterprise groups today rush to organize themselves, the role of the shareholding system is not merely to perfect the operating mechanism of individual enterprises; a more important role is to concentrate enterprises, strengthen the ability of the enterprise group's parent body to radiate their investments outward, select factories under joint operation in order to reorganize the factors of production, and to use stock control and stock ownership in order to set up enterprise groups that are larger in scope and which will expand markets at home and abroad. However, the effort to perfect the operating mechanism of individual enterprises conflicts with the effort to develop enterprise groups. If we concentrate our energy on the former task, it will inevitably entail a tortuous process of friction and rectification. During this period, as soon as an individual enterprise assumes the role of parent company of an enterprise group, it will find it impossible to attend to the needs of its affiliated enterprises because of the existence of many internal conflicts of its own, and the development of the enterprise group would be a fact in name only. However, if we were to establish enterprise groups without setting up a principal enterprise shareholding system, the power of the group parent body would be lessened due to the lack of funds, and it would still be difficult to accelerate the formation of enterprise groups.

II. The Best Option for the Shareholding System in Enterprise Groups is to Separate Two Generations of Enterprises

In the process of building up or overhauling enterprise groups, separating first generation and second generation enterprises is one option for promoting the shareholding system. Under such a plan, state-owned stock would not be directly controlled by state property management organs; rather, a new group corporation would be spun off from the leading enterprises in an enterprise group. This first generation enterprise would exercise control over state property on behalf of the state owned property management organs, and it would invest in a second generation enterprise. Different types of stock companies would be set up depending on the type of enterprise being invested in, and two different generations of coexistent parent and subsidiary joint stock enterprise groups would be established. The significance of this plan is four-fold.

1. It Would Change the Method of Managing State-Owned Stock.

An important characteristic of China's traditional system is direct management of enterprises by the state. In such a system, the form of resource allocation (i.e.—investment activities) and the form of resource utilization (i.e.—management activities) are both a matter of government administration. The entire state is like one big, unified trust. The vertical and horizontal isolation of government departments and administrative interference cause serious wastage of resources and low efficiency. An important aspect of economic reform has been the effort to gradually transfer control over investment and management activities from the government to enterprises. Taking the contract responsibility system as an example, such measures as setting fixed base numbers for contractors and allowing them to retain greater percentages of revenues gathered in excess of such base numbers are precisely an effort to further promote the reforms in which allocations are converted into loans. Enterprises are no longer subject to the control of fiscal policy organs in their loan repayments, which has accelerated the transfer of control over investment. Strict control measures requiring that enterprises hand over a certain amount of profits to the state, that they make up for their own losses, and that total wages be linked to economic benefits laid the foundation for the decentralization of power by the government, and these measures enabled the administrative authority of enterprise management to increase greatly. Under these conditions, when a shareholding system of state ownership is promoted, even though state administrative management is converted in principle to the management of state-owned property, the reality in practice has been that because the conversion of the function of the state has not yet been carried through to full effect, authority over investment and management activities which has already been devolved down to enterprises will once again revert to state control.

Due to this situation, we cannot afford to make the enterprise group shareholding program a simple rehashing of the old idea of a state-owned stock shareholding system. The plan to split first and second generation enterprises is precisely an effort to create offshoots from large enterprises which will exercise state ownership of property, to use such enterprises for the trial implementation of a shareholding system, and to convert existing publicly owned enterprises into joint stock companies in which the legal person representing public ownership owns stock as well. Under these circumstances, the true function of the State Administration of State Property would no longer be to control the investment and management activities of enterprises; rather, it would be twofold. First, it would be to support the efforts of large- and medium-sized enterprises to promote the development of group corporations which would manage and operate state property while taking responsibility for the dual task of running the business operations of state-owned assets and expanding domestic and foreign

markets. Second, the State Administration of State Property would formulate various policies to convert into stock the state-owned assets in medium and small sized enterprises which are not moving to establish enterprise groups, thereby creating the necessary preconditions for the development of enterprise groups. Only in this manner will we be able to continue forward with implementation of the shareholding system as we deepen reforms aimed at decentralizing authority and benefits; and only in this manner will we be able to integrate reform of state property management with restructuring of enterprises.

2. It Would Change the Position of Management and Comprehensively Expand Markets.

If groups are directly converted to the shareholding system, conflict will inevitably arise between the state, as owner, and enterprise management. The former represents administrative power while the latter represents market power, and it would be difficult to find an appropriate point of compromise between the two. The plan to separate two enterprise generations is not only a reform of the state property management system, but also changes the position of enterprise management. As soon as a new group corporation has been established, the management of the originally existing enterprise become legal organizational members of the group corporation, and they can use their status as owners to set up enterprise groups and to establish second generation enterprise joint stock companies, thereby taking shareholding systems based upon the interests of management and converting them into shareholding systems based upon the interests of the enterprise group. In other words, the separation of two enterprise generations, the establishment of group corporations, and the change of the position of management provide a medium for the reconciliation of state and enterprise interests. The original owners, managers, and laborers of enterprises would become united upon the basis of a new foundation, working together to expand markets, restructure the relationship between "groups" and other providers of funds (shareholders), and to raise funds in order to establish joint stock companies.

Let us take the example of asset assessment. In assessing the price of a existing assets the buyer and seller (i.e.—the two parties investing in assets) are equal market exchange entities, and the method they choose for assessing assets (original value, net value, replacement value, invisible asset added value coefficient, and inverted economic benefits calculations) is determined by the market position and economic strength of the two parties to the exchange. The limit of compromise between the buyer and seller is determined by each party's calculation of its own interests, for each is free to choose not to accept the result of the assessment. However, if assets are assessed by state property management organs in conjunction with the management of state run enterprises, market assessment would be replaced by administrative assessment, and the force of this assessment would depend not upon economic strength but

upon the administrative strength of the state. Subordinate enterprises would be forced to accept this method of assessment, and it would be difficult to avoid conflict between the state and enterprises. The situation would be different with the separation of enterprises into two generations. After such a separation, the interests of the state and enterprises would be melded together into a single group corporation. Asset assessment would be carried out by the corporation and outside providers of funds. Market strength would be relied upon, and choices arrived at freely by investors would resolve market conflicts between buyer and seller.

3. The Irregular Contracting System Would Be Made Compatible With the Regular Shareholding System.

If China's enterprises are to evolve from the current irregular contracting system into a regular shareholding system, three preconditions must be met. First, the function of the state must undergo a change. Second, property ownership must begin to be cleared up. Third, we must bring enterprise management groups must gradually mature. We must bring these three preconditions about by perfecting the contracting system.

Several situations have arisen in enterprises now in the midst of trial implementation of shareholding systems. First, the contracting system and the shareholding system often coexist with a single enterprise. Second, increased assets are being turned into stock, which is to say that dividends are paid on stock newly acquired by workers, staff, and outside shareholders. Third, the existing assets uphold the contract system which is to say that either contract base numbers are set very low or no dividends are paid on state-owned stock. The result is different benefits for different stockholders and encroachment upon the interests of older stockholders by newer stockholders. The concept behind splitting enterprises into two generations is that second generation enterprises will institute a regular shareholding system (one in which group corporations, outside shareholders, and employee shareholders make common investments) and will establish true joint stock companies in a manner consistent with international precedent. In the meantime, first generation enterprises will continue to maintain contractual relationships between the state and enterprises (group corporations), and they will work continually within the context of such contractual relationships to bring about the fundamental preconditions for total conversion to the shareholding system.

4. Using the Shareholding System To Build Enterprise Groups.

An enterprise group, as an economic concept, can take many different legal forms, but its essential characteristic lies in the conversion of the function of enterprise investment from a dispersed state to a more concentrated state, from a blind state to a coordinated state, and from a lack of independence to independence. The operating mechanism of enterprise groups has undergone a fundamental change. In concrete, the authority of

an enterprise under the traditional system is limited much like that of an individual workshop within a factory, and the entire state is like a huge trust carrying out planned investment and management activities. Since the beginning of reform, decentralization has enabled dispersed enterprises to gain investment and management authority, but the form of enterprise organization has become clearly divorced from socialized large-scale production and blind investment has severely distorted industrial structure because: investment entities have become dispersed; enterprise investment activities have developed blindly; and the function of large- and medium-sized enterprises to make investment decisions and manage profits has gotten mixed up with their function of production management. The purpose of separating enterprises into two generations is to separate and make independent the investment function of enterprise groups, and to have group parent companies carry out investment decisions for the group as a whole. The joint stock companies set up within the plan in which enterprises are divided up into different generations is in reality a matter of the group parent (the first generation enterprise) overhauling the manner in which the subsidiary (the second generation enterprise) raises funds and attracts shareholders. This measure enables the parent company to control the subsidiary, and it provides funds for technological upgrading by the second generation enterprise. At the same time, the process of readjusting and operating joint stock companies (second generation enterprises) will not affect the expansion of the entire group, and the group corporation will continue to promote the overall process of conversion to group business operations.

In short, the two generation enterprise plan is the best choice for the group shareholding system. It will serve as a beneficial exploration as we change the state property management system, bring the contracting system into line with the shareholding system, and regularize the development of enterprise groups.

Need for Scientific Development

HK2607082091 Beijing QIUSHI in Chinese No 12,
16 Jun 91 pp 27-31

[Article by Zhou Guangzhao (0719 0342 0664): "On Strategic Thinking Concerning Development of China's Science, Technology"]

[Text] Comrade Jiang Zemin recently pointed out that the entire party and all comrades, particularly leading cadres at all levels, must thoroughly understand the Marxist viewpoint put forth by Comrade Deng Xiaoping, that science and technology is the first productive force. In order to realize the second strategic goal of developing the national economy and society and to promote China's socialist modernizations, reforms, and opening up, we must attach great importance to and entirely depend upon science and technology. To greatly develop science and technology is the key to realizing China's Eighth Five-year Plan and its 10-year program.

The entire party and all comrades must understand this issue from a highly strategic perspective. I am going to express in this article my personal opinions on the strategic thinking concerning the development of science and technology.

A country can neither have its science and technology isolated from its social, economic, political, and cultural development as a whole nor be isolated from the world's standards and trends in regard to the development of science and technology. Only when one thoroughly understands the national situation and stays abreast of the development of the world's science and technology can he work out correct measures to deal with the situation and to catch up with this development at a firm and vigorous pace.

Upon reviewing such changes in the world's situation over the past 50 years, it is found that a remarkable feature of these changes was a gradual shift from military confrontation to economic competition. The focal point of this shift was a competition in the area of science and technology. To put it more precisely, it was competition of overall national strength. All countries, whether or not they were forced to do it, were involved without exception in this ever-increasing competition. The contests and conflicts among Japan, the United States, and Europe in the high-technology market marked by microelectronics demonstrated the openness and intensity of such competition. In a bid to improve their high-technology standards and the quality of their labor forces, various governments as well as various enterprise groups invested huge sums of money in science and technology as well as in education in order to improve their competitiveness and their chances for survival and development. The pace of development of science and technology, which is based on a foundation of free development, has been accelerated. In addition, the urgent need to participate in the market competition has further intensified such rapid development. Thus, it is anticipated that in the coming 20 to 30 years, development of basic sciences such as mathematics and physics will intensify; that of space science, oceanography, and earth science will continue; that of environmental science will become popular; that of information technology, life science and biotechnology, optoelectronics, materials science, energy conservation and new energy sources, and so forth will become more rapid and will even make major breakthroughs. Development in these areas will bring about reforms in technology and in society, and it will eventually affect the world's situation as a whole.

China is a populous socialist country where the per capita resources are relatively scarce. Its history and culture can be traced to ancient times, its economy and education are underdeveloped, its territory is vast, and its development is not even. To put an end to poverty and to the backward situation is an urgent need of the masses. By giving scientific guidance, always observing the ideological guideline of following the objective economic rules, and seeking truth from facts, this kind of

demand may become a powerful driving force for our modernization. Otherwise, if we strive for overnight success, pursue subjective and blind development, or even act recklessly, we shall be punished by objective rules, and there will be large-scale damage to productive forces, resources, and the environment. We have learned our lessons on many occasions, so we should thoroughly understand this and heed the warning.

In terms of science and technology, the scale and speed of development have been determined by China's situation. Furthermore, to a considerable extent this has also determined the guiding ideology of development. In addition to respecting the inherent rules of development of science and technology, we must handle well a series of relations; that is, to open up without depending on foreign countries; to learn from the experiences of foreign countries while keeping in mind China's national situation; to carry forward the spirit of autonomy; to realize our backward situation without underestimating our capabilities; to avoid striving for overnight success while racing against time; and to avoid attempts to catch up with and pass others in every way, but to develop advantages in certain areas for catching up with others. Simply put: to proceed from China's national situation, to consider ourselves the dominant factor, and to catch up with others should be the basic principle of development of China's science and technology. These guidelines should also be the basis for working out strategy and measures for developing China's science and technology. This is a requirement of the times, a requirement for invigorating the Chinese nation, and a requirement for adapting to the ever-increasing global competition.

Upon reviewing human history of the past several thousand years, it is found that the development of civilizations in every nation of the world was uneven. None of these nations was always ranked ahead of the rest. There were times when the civilization of the Chinese nation reached its height but then it fell behind others. If we acknowledge our status of being temporarily behind others and work harder, there are chances that the Chinese nation will make progress and will further develop. The revolution and construction led by the CPC have created the necessary elements for putting an end to this backward situation and have opened a new way to develop science and technology.

Human history began with the movement of production relations and productive contradictions. Even when production relations basically conformed to the development level of productive forces at that time, the speed of development in productive forces was not the same in various countries and regions. Some developed quicker than others, and the development was extremely uneven. By seizing the opportune moment at that time, some countries adopted correct policies, made full use of science and technology, which was the most vigorous productive force, and made unremitting efforts in their work so that they eventually put an end to the status of being temporarily behind others and were ranked as one of the advanced countries. Examples in this respect are

Germany in the second half of the 19th century, the United States by the end of the 19th century and in the beginning of the 20th century, and Japan after the World War II.

In the development of history, scientific findings, as well as new inventions of technology, always brought new opportunities. Take Germany, for example: It became a united country only in 1871, and its industrialization started almost 150 years later than Britain. In the 19th century, the mainstream industries of the world were the textile and iron and steel industries. Under the circumstances where British commodities were superior to others, the German economy stood tests by adopting such policies and measures as making technological innovations, stressing quality, and imposing trade barriers. The development of the German iron and steel industry was promoted by Seimens-Martin steel-smelting method and Krupp's casting method. In 1990, German steel surpassed British steel in terms of both quantity and quality.

The rise of the heavy chemical industry provided Germany a very good opportunity to invigorate its economy. In 1856, British chemist Perkins succeeded in the first synthesis of aniline dye, but this achievement did not attract the attention of the British textile industry. However, Germany took this opportunity to rapidly develop the tar dyestuff industry, and synthetic dye quickly became a major export of Germany. By 1913, Germany's output of dyestuff accounted for 80 percent of the world's volume. Indanthrone, which was then a famous name and very popular in China, was a product from Germany. The development of the dyestuff industry promoted development in other chemical industries and the pharmaceutical industry. Pyramidon, novocaine, aspirin, and 606 were pharmaceuticals developed by pharmaceutical departments of Hoechst and Bayer dyestuff factories. In addition, synthetic ammonia, artificial rubber, and synthetic paints were first developed by German scientists and were first produced on a large scale by German industry. Chemicalization was another new leap after mechanization in the industrial productive forces. Germany took this as its opportunity to become one of the world's most advanced countries.

That Germany rose in the development of science and technology and economically was not accidental. There were profound ideological and social reasons for this. When Britain was busily carrying out its industrial revolution and France began its political revolution, there arose in Germany—which was then a backward country—a philosophical revolution that exerted significant influences on human thought.

As early as 1687, natural science was integrated on a large-scale for the first time when Newton's "Mathematical Principles of Natural Philosophy" was published. A widespread application of principles about dynamics established a social status and a foundation for the natural science. Since then, the mechanical viewpoint on

natural science gradually gained the dominant position, particularly in Newton's country, Britain. It restricted thought so that the development of natural science in the first half of 18th century was remarkably slow.

A new dialectic viewpoint on natural science was basically formed in Germany. The nebular hypothesis proposed by Kant (1755) was the first discussion on the evolution of the universe from the viewpoint of the development of events. Schelling was the first one who proposed that a force was originated from a struggle of opposites in unity (1797). Hegel's dialectics, as well as Feuerbach's materialism and his theories on ethics and religion, were the most outstanding achievements and products of classic German philosophy. Later, Marx and Engels proposed dialectic materialism and historical materialism, exerting revolutionary influences on the contemporary human history.

It is not incomprehensible that it was just because of the influences of the German philosophical revolution that the mechanical viewpoint was totally broken through. In the early 20th century, there arose in Germany great mathematicians and physicians such as Hilbert and Planck, who made a series of great discoveries in contemporary times on the soil of German science in mathematics, quantum theory, and relativity. For a period of time following the end of the World War I, Germany had difficulties in dealing with its damaged production and harsh living conditions. However, German science continued to develop.

What should we learn from Germany in its development during such a period?

First, it is possible that we may catch up with others. To catch up with others does not mean to follow others' footsteps or to "catch up with and surpass others in every way." In the drive to catch up with others, we must take ourselves as the dominant factor, and grasp opportunities to make use of our advantages while overcoming our disadvantages. No event develops in a balanced manner, and this provides everyone opportunities. The same applies to the development of science and technology, as well as society and the economy. Whether or not one can grasp this opportunity is determined by the quality of his nation, as well as his subjective mobility. Those that fall behind may catch up with the advanced ones, and the advanced ones may become backward. This is a continuous process of historical development. A nation that is good at grasping an opportunity may catch up with others. At the same time, it must possess certain material conditions and cultural and scientific quality. It should work hard in terms of ideology, education, economics, science and technology so as to develop a situation where all people are united to make innovations and wage an arduous struggle. Only thus can a backward nation make full use of the historical opportunity to realize a great leap and catch up with others.

China is a big socialist state as well as an economically backward country. Nevertheless, we must realize that

over the past 40 years and more, China had greatly developed various construction undertakings. In particular, China now has a rather complete industrial-agricultural foundation and has cultivated a team of outstanding scientific and technological personnel. China has demonstrated that it is a nation imbued with wisdom and that it is a promising nation. The Chinese people are capable of making innovations and achievements in the socialist construction and are capable of making new findings and discoveries in terms of science and technology. We should not unduly humble ourselves. We must fully mobilize our initiative and the creativity of workers, peasants, and intellectuals on the basis of our established industry, agriculture, and science and technology; educate them in developing an uncompromising and innovative attitude toward work; form a lively general atmosphere of striving for better in society; create the necessary material conditions for scientific and technological undertakings; work hard in finding and grasping opportunities created by the development of science and technology; and unswervingly carry out our work. Therefore, we are certain that we can catch up with others.

In formulating the general strategy for taking ourselves as the dominant factor and catching up with others, we must also work out specific policies and strategies. Only in this way can we realize the task of catching up with others. I believe that in order to improve the present situation of scientific and technological circles, we must solve the following issues concerning policymaking.

First, we must further develop in society a general atmosphere of respecting knowledge, qualified personnel, and innovations and must implement specific policies. Scientific and technological research are a kind of labor mainly in the form of mental labor. A scientific or technological achievement may be owned in certain forms by a collective or an individual, such as through patents. However, such an achievement in the realm of natural science may become worthless if it is not offered to society. Therefore, scientific and technological personnel should generally not only be people who focus on science, focus on the practice of seeking truth from facts, and are devoted to their undertakings, but who also are willing to make contributions for society. Their labor should be esteemed in society and their necessary working conditions and living conditions should be met. Academically, we should promote the practice of pursuing truth, allowing a free selection of topics for study, and earnestly implement the "double hundred" principle so as to create a working environment that enhances their creativity to fully mobilize and give play to their subjective initiative and to let them display their talents and make their contributions in building the motherland.

At present, we must specifically focus on carrying forward the outstanding traditions of the Chinese nation. China is a country with a long history and age-old culture. It has been a tradition of the Chinese nation that it respects its culture and ethics and has the moral

character to be diligent and brave. In order to catch up with the developed countries, an economically backward country must, first, continuously make innovations and gain advantages by using high-quality and inexpensive new technology and products. Second, its people must work harder than others and must act in the spirit of devoting themselves to the undertaking and in the spirit of struggling in unison. However, high-level consumption in recent years boosted the people's concern about their personal interests to an extremely inappropriate level. There even developed the following phenomenon in society: A person who knew nothing about science or received no education might obtain a high standard of living without engaging in any arduous labor. This was an abnormal phenomenon. It will be impossible for a team of scientific research personnel to make significant inventions or to catch up with others if it has not received a high level of education in science, lacks noble moral character, or does not work harder than others.

Second, we must attach great importance to scientific and technological innovations. Scientific findings and technological innovations provide us with significant opportunities. Both scientific findings and technological innovations indicate the level of science and technology in a country, symbolize the advanced productive forces, and are the sources of a new technological and industrial revolution. In addition, laboratories for conducting scientific and technological research are bases for developing outstanding qualified personnel. Judging from China's needs and its conditions, we need to establish a number of bases for conducting scientific and technological research and to build a sharp team characterized by both mobility and relative stability. The state must give them steady and relatively ample financial support to allow them to concentrate their efforts on studying science and technology.

Innovations must be made not only in terms of new technology but also innovations in a series of tasks including engineering, processes, and even product design, packaging, and market development. Such transformation and reforms of industrial processes determine the product quality, cost, sales, and business results. Only when we fully mobilize and give play to the enthusiasm of scientific and technological personnel, as well as workers, in enterprises in such transformation and reform activities, can they assimilate and grasp the imported technology and equipment and turn them into China's own technology by making innovations. Only in this way can we upgrade our products and meet the needs of domestic and overseas markets; and only thus can an enterprise be energetic and yield good economic results. We should accumulate small-scale reforms and turn them into a transformation of an enterprise as a whole, thereby improving the vitality and economic results of such enterprise. We should accumulate the transformation of specific enterprises and turn it into a transformation of a whole trade, so as to improve the macroeconomic results. Therefore, local advantages will gradually become overall advantages. Only in this way

can we invigorate the economy and improve the productivity of society as a whole. In the past, Japan drew lessons from China's method of "two-participation, one-reform, and three-alliance"; and motivated and encouraged every scientific and technological person, as well as every worker, to devote their efforts to reforming every process and every working procedure of the production processes and to keep improving as much as possible every working procedure so as to improve the quality, save labor, and reduce costs. It was just because of this spirit and method that Japan succeeded in attaining today's high speed and high yield and participates in international market competition with a very high performance-to-price ratio. Now it is our turn to learn lessons from somebody else's experience, which was previously ours.

Third, we should take ourselves as the dominant factor and continue to expand the scope of opening up. It is absolutely correct for us to make full use of the international environment, to strengthen exchanges and cooperation, and to absorb and import advanced technology and management skills from overseas. However, we must take ourselves as the dominant factor and must aim at catching up with others. At today's development standards, science and technology are a domain which cannot be controlled by a single country, not even a developed country. This is another trend of internationalization. The United States is an open society, attracting a large number of outstanding qualified personnel. Japan took a conservative attitude in the past. It mainly learned others' technology and experience and would encounter difficulties whenever it wanted to make further development. In the mid-1980's, it formulated a series of plans to attract outstanding qualified personnel and to conduct basic research projects, such as planning for forward domains, planning of new domains relating to human body, and so forth. Recently, Japan further opened up to allow foreign graduates to work in enterprises after graduation. This is the case in most of the newly developed countries such as Singapore. In an internationalized society, a country must continue to carry out the policy of expanding the scope of opening up in order to absorb the wisdom and achievements of all mankind. In the course of opening up, however, we must implement the principle of taking ourselves as the dominant factor and serving our purposes. To take ourselves as the dominant factor not only helps us select cooperative and exchange projects, but also helps us give play to the roles of our teams and to their creativity, which is more important, so as to make innovations on the basis of study and to develop new science and technology on China's soil.

Fourth, we should guarantee the provision of certain material conditions. This is a necessary condition for catching up with others. Recently, the amount of money allocated by China for scientific and technological research and development was dropping. The amount only accounted for 0.7 percent of GNP, which was much lower than the world's average level. In recent years, a

number of key, state-funded science and technology engineering projects as well as key, state-funded laboratories were built. Generally speaking, however, most of the laboratory equipment had to be upgraded and transformed. At present, we are in the state of living off our past gains. Not only do we have difficulties in conducting scientific experiments, but, more importantly, there is a large-scale outflow of young scientific and technological personnel to other countries, or to other trades, because of poor laboratory facilities. Of course, we must keep a level head in understanding China's national situation, which is that the amount of money that can be allocated for scientific research and development is limited and is not nearly as much as what developed countries can invest in terms of money and equipment. So long as the necessary conditions for scientific research are guaranteed, it is more important to establish local advantages, and make it better to give play to the factor of subjective human mobility.

We may develop local advantages by selecting a limited number of targets; by installing better laboratory equipment; by creating a better work style of scientific research, as well as a better academic environment; and by selecting outstanding academic leaders and giving appropriate leadership and setting up organizations for them. After working hard for a considerable time, such local advantages will gradually form large-scale ones, and only in this way can we achieve our goal of catching up with others. We believe that the most crucial point at present is to select outstanding academic leaders. Academic leaders are likened to commanders during the warring years. The quality of a commander determined the work style of his armed forces, the fight capacity of his armed forces, and even the victory of a battle. Judging from this, we must pay attention to switch the focal point from the selection of a limited number of targets onto the selection of outstanding scientific or technological leaders.

Fifth, we should continue to intensively reform the science and technology system. Over the years, we made great headway in reforming the science and technology system, promoted development in China's science and technology. In particular, our technological development was conducted in direct relation to the needs of the economy and society, thereby making significant contributions in promoting progress in society and in the economy. We should continue to encourage a number of outstanding scientists to participate in the work of development and join the entrepreneurs, so as to accelerate the pace of turning scientific and technological achievements into commodities and to use the market's driving force to promote development in science and technology. In order to realize the goal of taking ourselves as the dominant factor and catching up with others, we must continue to explore and reform the ways of structural organization and administration; and in terms of operational mechanisms, so as to accomplish the shift toward the new system, to establish a new system that conforms with the rules of contemporary science and

technology development, as well as social and economic development; and that conforms to the needs for development in the 21st century. We should form a new pattern for free exchanges of qualified personnel, achievements, information, and capital in the areas of research, development, and production; and for a coordinated development of economy and society.

In his report delivered at the Seventh Plenary Session of the 13th CPC Central Committee, Comrade Jiang Zemin pointed out that the purpose of reform was to readjust the production relations, so as to conform to the development of productive forces. Science and technology is the first productive force, a special productive force, as well as the most active productive force. In further reforming the science and technology system, we should focus on mobilizing, and giving play to, the enthusiasm and creativity of scientific and technological personnel. Not only must we mobilize and give play to the enthusiasm and creativity of scientific and technological personnel working in professional scientific research institutions, but also those of scientific and technological personnel, as well as technical workers in factories, mines, and enterprises.

In China's history of socialist construction and scientific and technological development, there were two major scientific and technological events that were recorded in the Republic's history books. The first one was the 1956 call on scientists across the nation to work out a 12-year science and technology program and to formulate 57 major scientific and technological tasks, according to plans formulated by the CPC Central Committee and the State Council under the personal leadership by veteran proletariat revolutionaries Zhou Enlai and Nei Rongzhen. The purpose was to develop new technology such as computer technology, semiconductor technology, automation technology, radio technology, nuclear technology, jet technology, and so forth, thereby laying a foundation for China's scientific and technological development and effectively promoting development in both the economy and the national defense industry. The second one was the convention of a national science congress chaired by Comrade Deng Xiaoping following the crackdown of the "Gang of Four." This encouraged scientific and technological circles and greatly promoted an invigoration and development of China's science and technology. Now, the Fourth Session of the Seventh National People's Congress has approved China's 10-year program and Eighth Five-year Plan and has confirmed in a truth-seeking manner our goals and tasks for the next 10 years. A pressing task at present is to promptly mobilize everyone in the science and technology circles; to inform them of the situation, targets, tasks, principles, policies, and the existing problems; to clearly explain to them our advantages and disadvantages; and to pool their wisdom to discuss measures for giving play to our advantages and turning our disadvantages into advantages.

The Chinese nation is an outstanding one. With a highly creative and hard-working scientific and technological

work force, China will, under the guidance of the party's basic line of "one center, and two basic points," certainly be able to take ourselves as the dominant factor, and catch up with others; and will certainly make new contributions for invigorating science, creating new technology, developing the economy, and invigorating the Chinese nation.

Overview of Theories on Market Slump

91CE0637A Beijing JINGJI KEXUE [ECONOMIC SCIENCE] in Chinese No 3, 20 Jun 91 pp 40-43, p 6

[Article by Cao Jian (2580 1696) and Zhao Lianfang (6392 6647 7685) of China People's University: "A Summary of the Discussions Regarding the Market Slump"]

[Text] I. What To Make of the Market Slump

Theoreticians have looked at the question of what to make of the market slump from three different perspectives:

A. On the Nature of the Market Slump

1. The structural market slump theory: According to this theory, the market slump in the recent year or two is not something innate; it is localized, temporary, relative, and is structural in nature; the reason being that the stagnant product sales is accompanied by acute shortages in the market. In the subsistence market, food supply is tight, but there is ample supply of manufactured goods (primarily, the supply of clothing, household appliances, and stationery is plentiful, but the supply of coal for household use is tight). In the capital goods market, the supply of most agricultural raw materials, including grain, cotton, and leather, is still tight, and there is a stockpile of certain types of industrial capital goods but a shortage of other types, and the supply of agricultural means of production still falls short of demand. Accordingly, those who subscribe to this theory believe that this is not a buyer's market where supply exceeds demand.

2. The overall market slump theory: According to this theory, the market slump in the last two years is a general, all-out phenomenon. At the end of 1989, because of slowed product sales, not only did the sale of textile goods and household appliances and other consumer goods plummet, which resulted in a small increase in the stock of those goods, but the stock of such scarce basic goods as coal ash, petroleum, steel, and nonferrous metal also increased somewhat. From the sale of consumer goods to the sale of capital goods, from the nonindividual consumers to the regular consumers, in the cities and in the countryside, along the coast and in the interior, and for name-brand products and specialty goods alike, there were signs of recession everywhere. Many believe that we now have a buyer's market where supply exceeds demand. Some people suggest that during a market slump, brisk sales of some quality goods at firm prices is but a localized phenomenon. Since many products, including energy resources, raw materials, and

grain which are under state plans, are priced low because of the state-set pricing system, the excess demand for these planned products is due to the improper pricing system and is not a reflection of the real market situation.

3. The theory that the market slump is both structural and overall in character. This theory suggests that the market slump in the last two years has the characteristics of being both structural and general in nature. In some ways, it is structural in nature, and yet the sale of capital goods which constitutes the most important part of society's product sales and the sale of means of subsistence at the vast county and below-county levels have plummeted. But if we call it a "general" recession, we must admit that sales in the urban areas and the sale of some important means of production and means of subsistence have been brisk or have rebounded. Thus, China's market slump is both structural and general in character, which seems totally illogical, but it is at the mid-point between a structural and a general recession, and it has the potential of going to either extremes.

B. Assessing the Overall Supply and Demand Situation in China in the Last Two Years

With regard to the market slump in the last two years, theoreticians are divided into two main camps in their assessment of the total supply-demand situation: One camp subscribes to the theory of excess total demand and the other subscribes to the theory of inadequate demand.

1. The theory of excess total demand: This viewpoint goes hand in hand with the theory of "structural" market slump. Those who subscribe to it believe that China's economy has been marked by excess demand accompanied by a market slump in the last two years. Overall, the basic situation of excess demand has not changed, and we are still threatened by the possibility of the economy overheating again and by more inflation. Those who subscribe to this viewpoint have cited many reasons. They can be summed into the following 10 points:

(a) Overall, total demand still exceeds total supply: Total demand in the first six months of 1990 has increased another 8.3 percent compared to the same period a year ago, but total supply has increased by less than 2 percent. Since 1984, we have over-allocated the national income by nearly 500 billion yuan; we have over-issued 100 billion yuan's worth of currency; the gap between society's purchasing power and available commodities has widened by nine fold, and the cumulative government deficit has topped 30 billion yuan. Consequently, any kind of policy readjustment, change in supply and demand, or unexpected turn of events can upset the overall balance in the national economy. (b) The huge surplus purchasing power is a potential threat to the market. At the end of June 1990, we had 609.1 billion yuan in savings and 209.6 billion yuan's worth of currency (cash) in circulation. They add up to 818.7 billion yuan. Even after deducting 15 percent from that amount

as operating funds and public funds in private accounts, the balance of surplus purchasing power which the population intends to spend on consumption still comes to about 700 billion yuan. In contrast, the total supply of goods and materials is worth no more than 650 billion yuan in any one quarter. There is at least a 150 billion-yuan gap between the final demand for consumer goods plus investment demand (savings turned investment) and the supply of goods and materials. Many people have pointed out that the 700 billion yuan surplus purchasing power is a major threat to and exerts tremendous hidden pressure on the market. (c) The 1988 supply-demand condition which is being used for comparison is not an appropriate choice. Some people have pointed out that today's "market slump" is only relative to the 1988 market, but the 1988 supply-demand situation was abnormal. The economy had overheated; there was excess demand, and prices soared. They led to panic buying everywhere. People over-spent and withdrew their savings en masse, and there was chaos in the circulation sector. Consequently, the volume of sales in 1988 was 27.8 percent higher than 1987's, and to use the abnormal 1988 figures as base in our comparison will to some extent overshadow 1989's normal growth and make the 1989 and the current sales figures appear lower. (d) The stock of goods is still tight in terms of quantity and structure. Some people have pointed out that based on the October 1989 figures, the ratio of the amount of currency in circulation to the total stock of goods in the market was 1:1.52-1.7, far below the 1:4 ratio in most years. Discounting the price increase factor, the current stock of real goods has not been restored to the 1988, pre-panic-buying, level. As for the mix of goods in stock, some goods are in tight supply and some are overstocked. (e) Effective supply is not likely to increase significantly in the near future. Someone has pointed out that on the one hand, we have a poor economic structure and economic efficiency is low, and on the other hand, the state's lack of investment funds is the fatal blow which prevents the market from sustaining the effective supply of scarce goods in the market, and therefore effective supply is not likely to increase substantially within the foreseeable future, and the supply of scarce goods will remain tight for some time to come. (f) Although the scope of investment in fixed assets has been reduced somewhat since rectification and improvement, over-construction in the last few years means the scope is still far beyond what our national strength can bear. (g) Credit input has been increasing too much and too soon. In 1989, the balance of bank loans came to 1.2403 trillion yuan, 185.2 billion yuan more than at the beginning of the year. Not only did the increase exceed the 160 billion yuan planned for the entire year but the rate of increase also exceeded the rate of economic growth (loans funds increased 17 percent while the economy only grew 3.9 percent.) Moreover, loan funds were tight at first but eased up later, and in the fourth quarter alone, 125.1 billion yuan was lent out, and in January and February of 1990, the Industrial and Commercial Bank and the Agricultural Bank lent out another 100 billion yuan. (h) Consumption funds continued to

increase faster than the labor productivity rate as usual. Even though consumption demand was under control in 1989, the total wage bill of the nation's workers still exceeded the 1.6 percent rate of increase in labor productivity by 12.4 percentage points. (i) The price situation remains grim. Some people have pointed out that the current price surge is put under control partly by curbing demand but to a larger extent by increasing government subsidies, by the banks' raising the interest rate to absorb deposits, and by stepping up administrative control. All these are but measures of expedience. There is no solid footing in using government subsidies to stabilize prices; the increase in financial deficit will only add inflationary pressure, and readjusting the improper price relations will raise the overall price level. The supply of food and fuel still falls far short of demand, and that is why their prices are rising. These goods make up more than 69 percent of the people's living expenses which is an important factor behind the rise in the overall price level. The market price of some scarce capital goods remains very high, even higher than the international market price in some cases. (j) Someone has pointed out that China still does not have the systemic base for curbing inflation, and so we are stuck with the mechanism which continuously "reproduces" the situation of double, investment and consumption, expansion. So long as the local governments continue to behave shortsightedly, and so long as enterprises can evade the budgetary constraints, this kind of double expansion will continue to be reproduced again and again.

2. The theory of inadequate supply: This theory goes hand in hand with the theory of "overall" market slump. Specifically, there are the following viewpoints:

(a) The theory of inadequate current demand: This viewpoint suggests that the lack of demand which has led to China's overall market slump is not the lack of total demand but the lack of current demand. This is because the measures used during rectification and improvement have diminished current purchasing power and eased the conflict between total [as published] supply and demand, but total demand still exceeds total supply. (b) The theory of inadequate total demand: This viewpoint suggests that inadequate total demand is the economy's main problem. First, the equilibrium in total supply and demand is calculated based on a specific period (usually one year). Second, each year's supply-demand deficit cannot be carried over to the next year. Third, there is no essential difference between total demand and current demand—especially if analyzed on an annual basis, they can be put in the same category. The lack of current demand will be verified by various economic indicators, such as a reduction in the rate of price increase, a drop in the total retail sale of social goods as well as capital goods, the idling of a small portion of enterprises' productive capacity, a substantial increase in overt and hidden unemployment, a substantial increase in the stock of society's goods and so on, which are typical indications of inadequate demand. (c) The theory of

inadequate final demand: This viewpoint suggests that the market slump is due mainly to an inadequate demand for final goods. To get the market moving again, the state tried handing out start-up funds, but that only brought about a short-term increase in output value, and the main result was an increase in the stockpile of manufactured goods. Providing more industrial circulating fund loans can only stimulate intermediate demand but cannot lead to an increase in production, proving that the lack of demand for final goods is responsible for holding back production. (d) The theory of a minor crisis of over-production: This viewpoint suggests that the market slump in the last two years is a situation China has never run into before in the cause of its socialist construction. The problem is not the usual slowed sales but is actually a relative over-abundance of existing goods. It is obviously some sort of minor crisis of over-production, because the condition came on suddenly and unexpectedly, and it has spread everywhere and is accompanied by a general credit crisis among enterprises which is exacerbating the cash-flow problem and disrupting sales and purchases.

C. Some Value Judgments of the "Market Slump"

One viewpoint suggests that if the chronic and general market slump is allowed to go on much longer, it will inevitably produce many negative effects and create a more harmful than beneficial situation. The market slump will slow the increase in production, lower economic efficiency, and reduce government revenues. If enterprises stop work and stop production, it will lead to a serious unemployment problem and will undermine social stability. It will adversely affect the deepening of the reform process and hamper our opening up to the outside world and will jeopardize the economy's long-term development.

Another viewpoint suggests that a short-term market slump is not necessarily a bad thing. The market slump will slow the sale of some goods, and some enterprises will close down, and these are grim facts. But the market's cooling off is something we have looked forward to. Although it has cooled off so much as to be somewhat worrisome, compared to the earlier overheated market, the economy is much healthier today. Today, some products have a "buyer's market," giving enterprises a chance to improve themselves internally. From the market to production and to the infrastructure, as everything begins to cool off, it is the most opportune time for readjusting the economic structure, and the cooling will provide us with a spacious environment to do so.

A third viewpoint suggests that to a certain degree the market slump and the slower rate of growth are the expected results of rectification and improvement. On the whole, it should be looked at as a good sign and not a sign of a shrinking economy. A market slump is but a relative phenomenon that reflects the change from an exuberant seller's market to a limited buyer's market, a

change from extraordinary growth to normal growth or steady growth. This is a good thing, not a bad thing.

II. On the Causes of the "Market Slump"

A. The Relationship Between Rectification and Improvement and the "Market Slump"

One viewpoint suggests that the current market situation reflects the positive effects of the implementation of the general policy of rectification and improvement. Through rectification and improvement, a series of tight measures to curb demand have produced initial results. Inflation is under control and the excess demand over supply is gradually being eased. Someone pointed out that the tight policy will necessarily slow the rate of economic growth and increase unemployment, and they are a part of the general law of economics. This is the price we must pay for putting inflation under control, and no nation in the world is exempt. Today's slower rate of industrial growth in China should be looked at as inevitable as we rectify the economic environment and cool the overheated economy, and there is no reason to be concerned.

Another viewpoint suggests that over-tightening economy has led to the market slump. It maintains that it was correct to adopt the tight policy, but we did not know how far we should go. The growing weakness in the consumer goods market is due mostly to our over-tightening of the economy. In order to achieve its goals, China's economic contraction has always relied on the government's "rigid restraints"—administrative measures—which characteristically tend to be "short, harsh, and quick," and the tightening since 1989 has been especially so, and as a result, we have gone overboard in curbing consumption demand and have caused it to dry up excessively.

B. The Superficial Causes of the "Market Slump"

Theoreticians point out in their discussions that the many superficial causes to the market slump can be summed into two groups: One has to do with demand and the other with supply.

Reasons on the demand side include:

1. People exercised their purchasing power sooner than planned. The consumer goods market fell on hard times after the 1988 panic buyings which resulted in a sharp and sudden surge in the stock of household consumer goods. Four rounds of panic buying swept the country that year which led people to spend too much too soon, and as a result, the amount of luxury durable consumer goods owned by households and the amount of everyday consumer goods stocked by families shot up significantly, exhausting the purchasing power for that year, the next year, and even for some years to come.

2. Part of the purchasing power is diverted. Raising the interest rate, offering inflation-proof savings accounts, gathering funds in society, and issuing bonds—all these

have diverted a part of the purchasing power from the market. Instead of hoarding goods to preserve the value of money, people "save to conserve value," which has led to a noticeable decrease in impulsive buying.

3. The consumers' expectations have changed. (a) Their income expectation has changed. Some enterprises have cut production, and the workers are earning less, and so the people have lowered their income expectation. (b) Their price expectation has changed. The price of consumer goods has stabilized. The consumers are increasingly taking a wait-and-see attitude, and people who "buy when prices are rising" want to "wait when prices are falling." (c) Their profit expectation has changed. Instead of "hoarding goods to preserve value," people "save to conserve value." (d) Their supply-demand expectation has changed. As the supply of goods increases, the consumers are less anxious.

4. Farm income and the real income of the urban population have decreased. In the last two years, the price scissors between industrial and agricultural products have widened. The percentage of cash payment for the procurement of agricultural and sideline products has been low. Fewer peasants are seeking jobs elsewhere, and the unfair share of burden has increased. As a result, the peasants' real income and spending have declined. Moreover, for over a year prior to the wage adjustment in 1990, the real income of workers in cities and towns has also been on the decline. More people have been laid off work, and jobs are harder to come by, and the share of burden per worker has been rising. Psychologically, the people now expect to have to spend more and are more cautious about their consumption.

5. The consumption-mix has changed. As the people's real income decreases, Engel's Law which reflects people's consumption mix predicts that they will spend proportionally more money on food than they normally would in order to keep up their standard of living, and as a result, the sale of luxury consumer goods flattens.

6. Some products are priced beyond what the people can afford, thus curbing their consumption. In particular, the low-income workers can never afford the luxury durable consumer goods they want to buy.

Causes on the supply side include:

- (1) Reckless increase in production: In other countries, color TV, refrigerators and similar goods have been around for more than a decade or even decades, but in China, the sudden popularity of household electrical appliances has triggered a sharp and sudden increase in their production, but beyond a certain point, the demand for these goods will decline, resulting in excess productive capacity.

- (2) The poor product-mix: The product-mix we have created after all these years neglects the people's standard of consumption and their diverse consumption needs. Specifically: (a) the increase in production has not kept up with the increase in the people's consumption;

(b) the product-mix lacks diversity and variety; (c) the quality of the products does not meet the consumer's demand; (d) the readjustment of the product-mix is partial to the urban areas at the expense of the rural areas. As a result, structurally, the sale of goods is weak and the stock of goods is not compatible with the people's needs.

(3) The slow pace of technological progress: There is little technical content in the consumer goods being produced. The gap between the level of technology and the level of consumption has widened, giving rise to a structural contradiction: People cannot find what they want to buy, and the market is full of goods they do not wish to buy.

(4) Foreign trade problems: The importation of goods which should not have been imported has undermined our economic development. Many trades and industries have been adversely affected by imports, and as a result, some domestic products have lost a part of their market share.

C. The Deep-seated Mechanisms That Gave Rise to the "Market Slump"

1. The theory of overall disequilibrium: Some people suggest that the root cause of the predicament of excess demand accompanied by market slump lies in the distorted internal relay system that links society's total demand to society's total supply and eventually to society's total consumption: (a) Total demand decreases progressively at each level. This is due to the financial deficit, the increase in domestic and foreign debts, issuance of currency in excess of what the economy needs, and soaring prices. (b) Total supply increases at each scale. This is due to the coexistence of effective supply and ineffective supply, increased imports, obstructed exports, the elimination of some companies which has led to a drastic reduction in the number of circulation links, and the rapid expansion of commercial credit which has driven settlement and default to the limit and beyond. (c) Total real consumption decreases progressively at each level. This is because the sharp increase in savings and bond issuance has caused a decrease in the propensity to spend. People are holding on to their money and putting off purchases, thus curbing society's purchasing power, and devaluation of the currency has reduced the people's real income. From the progressive increase [as published] in total demand to the uneven increase in supply to the progressive decrease in total real consumption—this process has led to the market slump.

2. The theory of structural imbalance: This viewpoint suggests that the market slump is the result of the serious disequilibrium in the industrial structure and the product mix amid a super-high rate of economic growth. Whether we are talking about inflation or production decline, they are all caused by this structural imbalance.

3. The theory that the system is the root-cause of our problems. This viewpoint suggests that the many conflicts and problems in the economy may appear to be

cyclical problems, but at a deeper level, we will find that they are due mainly to the yet unfinished and unsuccessful economic reform and the fact that the main systems and mechanisms are not in place yet, and as a result, our macro plans and arrangements are imprecise and our decision-making is not scientific enough. We fail to optimize the various structures and standardize the various economic relationships, and so we cannot put the economy on a benign cycle. Some people point out that our less-than-effective macroeconomic regulation and control is the main cause behind the market slump. We have not yet figured out how to operate the system which organically integrates planned economy and market regulation, and so we cannot escape the vicious circle where "control means rigidity and decontrol brings chaos."

III. How To Deal With the "Market Slump"

1. The General Countermeasures

(a) We should continue to curb demand. According to this viewpoint, the current rectification and improvement is not complete yet. The six goals of rectification and improvement have not been achieved, and society's total demand, especially the potential demand, remains substantial. The main task for the next few years will continue to be to curb demand and ensure economic stability. (b) We should adjust the degree of tightness. According to this viewpoint, we must continue to tighten the economy quantitatively, but we must adjust the degree of tightness, grasp the rhythm, seize the focal point, and pay attention to reforms in other areas that complement the tight policy. Specifically, while tightening the economy in general, we must ease up in some areas and make the tight policy more structure-oriented. (c) We need a proper policy to loosen demand. According to this viewpoint, we need to adopt a policy to loosen demand and increase the investment scope and should not continue to make reducing currency issuance the control objective. Some people have suggested that we should shift our focus from stimulating intermediate demand to increasing final demand. Others have suggested that in promulgating macroeconomic policies, we should separate the long-term policies from the short-term policies. Today, a short-term macroeconomic policy choice is to increase demand and to achieve a moderate rate of economic growth amid mild inflation.

2. The structural adjustment approach: Many people suggest quickening the pace of readjustment of the economic structure. Some people point out that in the past, because of inflation and excess demand, there was no market pressure to make structural readjustments. But today consumption demand is relatively stable and the consumers have greater power to make choices in the market, and such market pressure offers a rare opportunity for us to make structural adjustments. As for the focal point of structural readjustments, some people have suggested emphasizing the increments when readjusting the industrial structure to increase effective

supply. Others have suggested readjusting the product-mix as the breakthrough point of readjustment of the industrial structure, putting the emphasis on readjusting the existing stock of goods, and their objective is to improve and increase structural efficiency. Some people suggest using the readjustment of the product-mix to facilitate the readjustment of the industrial structure and enterprise structure, integrating the readjustment of the stock with that of the increment.

3. The consumption, savings, and income policies: With regard to the consumption and savings policies, there is one suggestion that says we should immediately stimulate the demand for final consumer goods and ease the control over certain non-individual consumer groups and advocate moderate consumption. Some people suggest decontrolling consumer credit to increase the rural families' and low-income urban households' purchasing power. They suggest lowering the interest on savings deposits to increase consumption demand and take more goods out of circulation. Others maintain that we must be careful about lowering the interest rate to curb savings and stimulate consumption. Some people suggest that if the interest rate is too low, it may prompt people to withdraw their money from the banks, and that can create a cash flow problem, and therefore we should not readjust the interest on savings drastically.

4. The investment policy: One idea suggests that increasing the scope of investment in the basic industry, in the infrastructure, and in technological transformations is the most effective way to solve the market slump problem. Increasing investment can improve the industrial structure on the one hand and increase society's demand on the other hand. Another viewpoint advocates continued effort to control the scope of investment, and besides tightening budgeted investments, it is even more important to tighten extra-budgetary investments.

5. The monetary policy: One idea suggests that to get the market moving again, we must ease the money supply and lower the interest rate on loans. We should increase the input of loan funds, and not only must we guarantee loans to large and mid-sized enterprises, but we must get the medium and small enterprises moving again. Another viewpoint suggests that the availability of start-up loan funds to ease the market slump has in effect eased the money supply already. Today, financial macroeconomic control should focus on controlling currency input as well as controlling the credit volume.

6. Deepening the reform process: Many theoreticians believe that since rectification and improvement have already produced some results, and since the excess demand is gradually being eased, we must push the restructuring of the economic system even further. They suggest that we can make use of the current market slump and the eased supply-demand situation to accelerate and deepen the reform process and radically solve our current problems, and starting fresh from this new base, we can help the economy develop more smoothly and efficiently. Only through thorough reform can we

overcome all the systemic obstacles which have stood in the way of the readjustment of the industrial structure, and only then can we create the internal mechanisms to continuously optimize the industrial structure.

7. Price reform and readjustment: Many theoreticians believe that during the market slump when prices are stabilizing, it is the best time to restructure and readjust the pricing system.

One idea suggests accelerating the reform of the pricing system. Some people believe that the spacious economic environment is offering us a rare opportunity to "merge the double track" capital goods pricing system. Nothing is standing in the way of our removing the double track system now. We should decontrol all prices group by group. Some people suggest that for products now under state plans, we can use a composite price (average price) made up of parity price and high price and abolish all other pricing formats as a way to restructure the double track pricing system. The price of basic goods which are chronically in short supply, which have an inelastic supply, and which are being monopolized should be controlled by the state as we eliminate all extra-plan prices. Products which are not under state plans and which are not in short supply and which do not have a large planned versus extra-plan price differential should be gradually decontrolled and let the market set prices. Certain products which we have an excess supply of should take the lead in merging the double track prices into a single track.

Another idea suggests that we should accelerate the readjustment of the pricing system. Some people feel that since inflation is under control and since consumption demand is relatively stable, the market now has more control over price increases, and if we raise the low, state-set prices of basic goods by a reasonable amount now, we can force the downstream products to absorb and digest part of the effects of the price increase of basic goods and in turn keep the price of process goods from increasing faster than the price of basic goods, and then we can achieve our price adjustment objective.

Comparison of State, Township, Joint-Venture Enterprises

91CE0740A Beijing JINGJI CANKAO BAO in Chinese
5 Aug 91 p 4

[Article issued by the Enterprise System Office of the State Restructuring of the Economic System Commission: "Passivity and Change—Why Are State-Owned Enterprises Less Vigorous Than Township Enterprises and the Three Kinds of Foreign Trade Enterprises?"]

[Text] "State-Owned" Enterprises May Well Worry About China's Flourishing "Nonstate-Owned" Enterprises.

The ownership structure of China's economy has undergone a profound change in recent years, in that township

enterprises and the three kinds of foreign trade enterprises (joint-venture, contractual joint-venture, and wholly foreign-owned enterprises) have become a new force suddenly coming to the fore by developing so quickly. By 1990, township enterprises had achieved a gross output value of 950 billion yuan, or 25 percent of that throughout China, including a GVIO [Gross Value of Industrial Output] of 700 billion yuan, or almost one-third of that throughout China, and a capital formation of 350 billion yuan, or 22 percent of that of state-owned enterprises. By the end of 1990, the number of approved three kinds of foreign trade enterprises throughout China had reached 29,000, of which 14,000 had actually gone into operation, and the three kinds of foreign trade enterprises throughout China achieved a GVIO of more than 70 billion yuan in 1990, or about 3 percent of that throughout China.

Township enterprises and the three kinds of foreign trade enterprises have achieved even more outstanding economic development successes in certain places. For instance, the City of Suzhou has 16,000 enterprises of all types, of which 14,200 are township enterprises, and 380 are approved three kinds of foreign trade enterprises, 200 of which have gone into operation, so that these two types of enterprises account for more than 90 percent, and their output value accounts for two-thirds of the output value, of all of Suzhou's enterprises. The industrial output value of the three kinds of foreign trade enterprises in Shanghai and Beijing account for 6 percent and 9 percent, respectively, of these cities' GVIO's, which figure has reached 20 percent in Guangdong Province, and is 56 percent and over 60 percent, respectively, for Xiamen and Shenzhen.

China's industrial growth in recent years has relied mainly on "nonstate-owned" enterprises, township enterprises and the three kinds of foreign trade enterprises in particular. Of the increased industrial output value throughout China in 1990, township enterprises accounted for 40 percent, and the three kinds of foreign trade enterprises accounted for 33 percent, while state-owned and other types of enterprises accounted for only 27 percent. While industrial output value throughout China in 1990 increased 7.6 percent, that of township enterprises increased 35 percent, and the three kinds of foreign trade enterprises raised China's industrial output value by almost 2 percent. From 1985 to 1990 in the City of Suzhou, while the output value of township enterprises increased an average of 23.5 percent a year, that of state-owned enterprises increased an average of only 7.9 percent a year. While Wuhan City's 1990 industrial output value was 33.9 percent higher than in 1985, for an average increase of 6 percent a year, state-owned enterprises accounted for only 4.3 percent of this, while township enterprises accounted for as much as 26.4 percent of it. At the same time, state-owned enterprise efficiency has declined, with as many as one-third of them having sustained losses in 1990, their profit and tax payments having decreased 18.8 percent, their realized profits having dropped 56.7 percent, and their losses

having doubled in amount, which has offset almost one-third of the profits of profitable enterprises.

The Key to Enterprise Vitality Is in the Operating Forces.

The key to enterprise vitality is in the climate of the system and the forces under which they operate. As most township enterprises and the three kinds of foreign trade enterprises emerged through reform, neither their production nor development was basically hampered by the old system. Their investment activities and production operations are basically not subject to state planning, nor are their operations subject to the former system of management and administration, so that they actually operate under a system of indirect macroeconomic regulation and control and market forces. While state-owned enterprises are undergoing a certain amount of reform, they are still operating under a system that has not been thoroughly reformed. These differing system climates were bound to create completely different enterprise operating forces.

The operating forces of state-owned enterprises, in comparison to those of township enterprises and the three kinds of foreign trade enterprises, differ mainly as follows:

Their decisionmaking power differs. As state-owned enterprises are responsible for carrying out the state's major directive plans, have set investment scopes, are subject to loan "restrictions," must implement production plans, and are forced to use state-set prices, their decision-making power is naturally very limited.

Their degree of responsibility for their profits and losses differs. As state-owned enterprises have no decision-making power on one hand and no responsibility for their profits or losses on the other, and operate under conditions of profits being confiscated, losses being subsidized by the state, and all eating out of the state's big pot, they are subject to neither the motivating force of having to struggle for existence and development, nor the restraining force of elimination through competition or threat of bankruptcy.

Their personnel use differs. As state-owned enterprise managers sit in "iron armchairs" and their staff members and workers eat out of "iron ricebowls," job performance does not matter, with there being neither pressure nor vitality, and even less creativity.

Their income distribution differs: As equalitarianism and all eating out of one big pot have resurfaced in state-owned enterprises in the last two years, under which conditions staff member and worker income can increase but not decrease, and the incentive role of wages and bonuses have increasingly weakened, staff members and workers lack both initiative and creativity.

Regardless of how many ways in which state-owned enterprises differ from township enterprises and the three kinds of foreign trade enterprises, what it boils

down to is that township enterprises and the three kinds of foreign trade enterprises have decisionmaking power and responsibility for their profits or losses, while state-owned enterprises do not. Decision-making power and responsibility for profits or losses are the basic requirements for turning enterprises into independent commodity producers and managers, and will naturally also play a crucial role in reforming the operating forces of state-owned enterprises.

Giving State-Owned Enterprises Full Decision-making Power and Responsibility for Their Profits or Losses Will Depend on Overall Deepening of Reform.

In order to thoroughly change the operating forces of state-owned enterprises, the old system must be reformed first. It will be necessary to deepen reform in an overall way, including reforming our planning, materials, and banking systems, creating an efficient macroeconomic regulation and control system, developing and perfecting a socialist market system, evolving elimination through competition forces, establishing a system of sound social safeguards, and reforming our system of administration of state-owned property. Moreover, it will be necessary to establish operating forces that will give state-owned enterprises decisionmaking power and responsibility for their profits or losses. The time when our whole economic reform is completed will be the day when state-owned enterprises become truly invigorated.

Some State-Owned Enterprises Could Be Allowed To Take the Lead in Acquiring Decision-making Power and Responsibility for Their Profits or Losses.

Our whole economic reform will be a very long process. Until our macroeconomic conditions are complete, we could allow some state-owned enterprises to use various ways and means to build operating forces that are the same or similar to those of township enterprises and the three kinds of foreign trade enterprises, so that they could escape from their current systems and our system of management and administration, and acquire the same vigor and motivation as township enterprises and the three kinds of foreign trade enterprises. This could be accomplished in the following concrete ways:

1. First, foreign investment, domestic nonstate-owned capital, and other state-owned enterprise capital could be attracted and used to reorganize state-owned enterprises into shareholding corporations, and form new operating forces. Or consideration could be given to choosing a number of state-owned enterprises, particularly those that are in urgent need of technological upgrading, which could combine attracting foreign investment with upgrading technology, in order to become shareholding joint ventures. Second, shares could be issued to attract corporate and personal investment with which to reorganize ageing enterprises into shareholding corporations. Third, mergers and group development could be promoted vigorously, which would spur capital mergers among enterprises, cross-departmental and transregional mergers in particular.

2. The management methods of township enterprises and the three kinds of foreign trade enterprises could be used to enable some state-owned enterprises to take the lead in freeing themselves from the confinements of their current systems, and evolve operating forces like those of township enterprises and the three kinds of foreign trade enterprises. The City of Suzhou has proposed methods to "lure township enterprise talent to the city," such as joint management of state-owned and township enterprises, contracting of urban enterprises by township enterprises, and inviting township enterprise operators to help run urban enterprises. It has also adopted the method of township government operation of township enterprises, in which the government supplies only macroeconomic control, planning, guidance, and service, while enterprises retain total decisionmaking power over production operations, personnel use, and income distribution. The City of Xiamen has proposed plans and detailed rules and regulations for invigorating state-owned enterprises in line with international practice or the operating methods of foreign-invested enterprises. These ideas should be taken seriously.

3. The favorable conditions of SEZ's and EDZ's could be used to create microclimates or favorable environments for state-owned enterprises that are roughly equal to those of township enterprises and the three kinds of foreign trade enterprises, or certain SEZ's could be set up in which to invigorate some state-owned enterprises first.

PROVINCIAL

Joint Sino-Foreign Shareholding Corporations Trials Set

91CE0712A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 23,
10 Jun 91 p 11

[Article: "Shanghai Decides on Fourth New Form of Share System"]

[Text] Shanghai authorities concerned recently set for new forms of the share system for pilot projects in 1991:

1. Group corporation share system trials. Most group share corporations are made up of large- or medium-sized enterprises. Such corporations expand the enterprises' capital through the share system, employing shareholding, share participation, and share control by juridical persons. They may also form parent-subsidiary corporations through the merger of enterprises.

2. Founding of Sino-foreign mixed shareholding corporations. Enterprises in China in which foreign businessmen have invested are currently of three kinds: joint ventures involving Chinese and foreign investment, cooperative businesses, and sole proprietorships. Mixed shareholding corporations will become the fourth kind of foreign trader investment in Shanghai. Mixed shareholding corporations presently under consideration may

be divided into two kinds: One is the already existing Sino-foreign joint venture enterprises, whose assets will be evaluated to determine the percentage of shares that the Chinese and foreign parties will hold after which capital will be increased through the expansion of shares. The other kind is the newly organized Sino-foreign mixed shareholding corporations for which shares are openly issued overseas and inside China to raise capital.

3. While issuing shares in the local currency, shares denominated in foreign currencies will be issued on a trial basis. The basic principle that Shanghai authorities concerned has set is as follows: Local currency shares are to be issued for circulation within China; foreign currency shares are to be issued for circulation outside China.

4. Study of the organization of cooperative investment in various kinds of funds. Investment in funds is a popular form of investment abroad in which individuals invest in a fund, the capital invested in the fund then being used to purchase shares in corporations making good returns. This is a way in which to reduce both ill-informed investment and investment risks for scattered individual investors, ensuring that they make a fair profit from shares, while also reducing major ups and downs in the stock market and excessive speculation.

Shanghai authorities concerned also decided that the Shanghai enterprises that are to expand share system trials in 1991 will be mostly large- or medium- sized state-owned processing enterprises. Some group enterprises or small enterprises may set up limited liability corporations for internal staff member and worker shareholders, but share certificates may not be issued or marketed in society at large.

Status Report on Shanghai Share System Pilot Project

91CE0712B Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 24,
17 Jun 91 pp 12, 13

[Article: "Shanghai Share System Pilot Project Makes Initial Headway"]

[Text] The Shanghai share system pilot project began in 1984. The earliest pilot project corporation to institute the share system was the Shanghai Feile Sound Corporation. Today, there are 11 fairly large share system corporations. The total share capital of these corporations amounts to 887 million yuan, or 74.77 percent of their capitalization. Juridical shareholders hold 158 million yuan in shares, or 17.76 percent. Individual shareholders hold shares worth 66 million yuan, or 7.48 percent. These 11 corporations are of four kinds: four industries, four businesses and service industries, two financial institutions, and one real estate business.

Shanghai's share corporations are of three main kinds as follows: The first is share corporations restructured from enterprises in which the monetary value of assets in

being has been converted into shares, some of the increase in assets being paid for through public subscription. The second is share corporations founded through the joint investment of several institutions. The third is share corporations that certain units have initiated and that have been founded through publicly solicited share purchases.

Along with advances in share system pilot project work, a Shanghai municipal securities issuance and exchange network has begun to take shape. The Shanghai Municipal Security Exchange was founded in November 1990. Today, the exchange has 25 corporate members and conducts market trading in eight different kinds of share certificates.

Not only do some some leaders of pilot project enterprises worry about the political risks of pilot project work, but other problems exist in the form of too small a share market, a supply of shares that falls short of demand, insufficient standardization of enterprise pilot project operating methods, and attendant incomplete laws. Authorities concerned give very serious attention to Shanghai share system pilot project work, and they have said that they intend to take further improvement actions.

FINANCE, BANKING

Financial Reforms Encounter Problems

91CE0638A Hong Kong TANG TAI
[CONTEMPORARY] in Chinese No 3, 15 Jun 91
pp 48-50

[Unattributed article: "Obstacles to Financial Reform During the Eighth Five-Year Plan"]

[Text] Enterprise Debts Reach 140 Billion

During the 14 months from November 1989 to the end of 1991 [as published], total outstanding credit throughout the nation increased by one-third. New loans amounted to 400 billion yuan, the highest figure ever in the 40 years since the founding of the nation. The objective of this huge injection of funds has been to stimulate production and to alleviate the "triangular debt" problem between enterprises. In actual practice, however, this action has not had the desired effect upon production. Large and medium size state run enterprises to which loans have been directed have only grown at a rate of 1 or 2 percent. Taking the economically advanced Shenzhen special economic zone as an example, total loans last year exceeded 30 billion, and the ratio of credit to total output value was 1 to 0.43. The rate of funds possession increased by 17 percent, and stood 30 percent higher than the national average. This shows that inputs are high, output is low, and economic benefits are declining. According to a study of 40,000 industrial enterprises throughout the country carried out by the Bank of Industry and Commerce, the turnover of circulating funds in the first three quarters of 1990 slowed down by 57 days, outstanding loans have been tied up in

inventory and unpaid bills, and the problem of "triangular debt relationships" between enterprises actually increased by 2 percent in 1990 throughout the country, exceeding 140 billion yuan. This deformation of the national economy has resulted in a bottomless pit; no matter how much money is thrown into it, it can never be filled up.

A New Form of Inflation

We have seen a large volume of loans, rapid growth of money supply, and alternating growth of bank deposits and loans, each feeding upon the other. Because the superiority of the system must be maintained, even if an enterprise loses money and its production declines, the wages and bonuses of workers and staff must be maintained. Part of the additional 400 billion yuan in loans has been converted, via the conduit of consumption funds, into the monetary income of private individuals. This money has been in turn converted via the conduit of credit into savings, but the growth in savings has provided extra funds to banks to continue expanding their loans, resulting in the following banking cycle: Bank loan—individual monetary income—savings—reloan. This has resulted in a new form of inflation.

Everyone knows that in spite of apparent price stability, social calm is being purchased at the price of compulsory administrative controls and huge fiscal subsidies. About one-third of all fiscal expenditures are being used for price subsidies and to make up for enterprise losses. Income is still being distributed in excessive amounts. Slowly rising prices have not hidden the existence of inflation and huge fiscal deficits year after year. Government overdrafts upon the Central Bank exceeded 10 billion yuan in 1990. In addition, banks have had to shoulder the fiscal burden of propping up money losing enterprises. Loans have reached 100 billion yuan, and as credit funds have gradually been turned into fiscal outlays, banks have become nothing more than cash registers for the government's fiscal policy.

Money in Circulation Shrinks, Enterprises Suffocate

The proportion of circulating funds mustered from resources owned by enterprises is going down as their reliance upon bank loans increases. Some enterprises rely on banks even to maintain simple reproduction. About 80 or 90 percent of the operating funds of Shenzhen enterprises are borrowed from banks, and some new enterprises rely on bank loans for their owned funds and even for the expenses associated with going into business. Bank loan surpluses throughout the country by late 1990 had reached 1.5 trillion yuan. Monetary policy determined by the expansion or contraction of bank credit is directly restricting the growth of the entire national economy. Once money supply shrinks, broad brush, indiscriminating measures are taken, enterprise funds become tight everywhere, the ability to pay debts decreases, enterprises fall behind in the repayment of

large amounts of loans, normal production and circulation order is destroyed, production equipment and labor sit idle, production shrinks, and the economy takes a nosedive.

Every Man for Himself; Settlement of Accounts in Chaos

After the monolithic national network of The People's Bank was broken up, the various specialized banks formed their own network systems, which has given rise to a most unhumorous joke: It takes three or four days for the Bank of Industry and Commerce and the Bank of Agriculture, which are right next door to each other, to handle a single transaction between them. Banks have overlapping business activities, compete against each other, and worry only about their own parochial interests. When a banker's draft comes in from another bank, they deliberately cause trouble by ignoring the drafts, rejecting them, or transfer funds too late. When a commercial dispute arises, banks generally prove partial to the interests of the local enterprise, and find a multitude of excuses to refuse payment of a draft which has already been accepted. Some enterprises collude with banks and use fake acceptance bills to get loans from those banks. In order to expand their business operations, some nonbank financial organs honor suspicious notes from commercial firms without investigating their creditworthiness or asking whether they are actually involved in the exchange of commodities. State funds are squandered and normal banking order is thrown into chaos.

The Securities Experiment Has Not Succeeded

The Shenzhen Stock Market developed rapidly in 1990 and spurred a nationwide "stock craze." Various large and medium sized cities copied Shenzhen by applying for permission to set up their own stock markets and securities markets, but they were denied by the central authorities, who stipulated that these markets would be limited to experiments in Shenzhen and Shanghai. The fact that the Shanghai Securities Exchange Floor was permitted to open last year in Shanghai was a sign of the determination of China to continue with reform, and many foreign firms and Hong Kong investors became extremely interested in investing in Shenzhen and Shanghai. However, after four months, the Shanghai Securities Market was showing little life. There were few types of securities available (mostly treasury bonds and other bonds), and trading was very light. Prices on the Shenzhen stock market, after wild growth last year, have been falling steadily for almost five months since the government intervened in the market. Trading is light, some individual stocks do not trade in an entire week, and investors have lost confidence in the market. High ranking officials in Beijing felt that wild price increases on the Shenzhen stock market resulted in unfair distribution and demanded that the market be rectified and that prices be suppressed. The municipal government was responsible only to its superiors and paid no attention to actual conditions in Shenzhen. They have done nothing to "save the market," and in fact, most stockholders bought in when the market was high and have

suffered losses. Some cadres, though, have used their authority to make a bundle.

Corruption and Bribery Commonplace

Party practices are sinking lower, and cadre corruption has spread into banking. A bank job is popularly referred to as a "golden rice bowl." It has become so commonplace for everyone from the head of credit cooperatives to deputy provincial department heads in charge of banks to use their authority over credit transactions to further their own private interests that no one thinks it strange any more. The director, cashiers, and fiscal funds manager at a credit cooperative in a certain city in Sichuan took to gambling right in the back rooms of their credit cooperatives. When they won, they would stuff the money into their pockets, and when they lost they would just take it out of the safe. In over a year they withdrew more than 160,000 yuan from the safe and lost 138,000 of it. In Shenzhen, where the economy is open, there are that many more scoundrels among the honest folks. A woman in charge of a branch of the Bank of China made a loan of 1.76 million yuan to her brother-in-law so he could go into business, and she pocketed the interest. A young clerk in the Funds Department of the Merchants Bank appropriated 980,000 yuan to engage in currency speculation in Hong Kong. He lost his money and was discovered. Some accountants have manufactured fake seals to siphon off funds, working in cahoots with people on the outside to embezzle huge amounts of bank funds. Clerks have taken advantage of the chaotic system to steal the funds they were supposed to be monitoring, fleeing with millions of yuan. The case of Gao Senxiang [7559 2773 4382], a vice-provincial department head in charge of a branch of the Zhongxin Industrial Bank, which came to light late last year, was a very large and rare incident in the history of the republic involving someone at the provincial department level. He accepted 660,000 renminbi, H.K.\$2.3 million, and U.S. \$5,000 in bribes. Loans which were illegally improved by Mr. Gao and later became nonperforming resulted in losses of almost 100 million yuan. It is ironic that two months before the Gao case came to light, the Shenzhen Municipal Disciplinary Committee inspected the bank and concluded that Gao Senxiang was "a good, forward-looking cadre." Officials cover up for each other, and because the oversight system is not sound, it is impossible to get rid of all the termites in the banking system, so banking reform is just an empty phrase.

Fiscal Subsidies, Causes, Effects

91CE0638B Hong Kong CHENG MING
[CONTENDING] in Chinese No 6, 1 Jun 91 pp 48-50

[Article by Chao Ju-Ch'ien (6392 3067 6197): "The Causes and Effects of Chinese Communist Fiscal Subsidies"]

[Text] China has been carrying out reform of its economic system for over ten years now. With respect to development in recent years, although there has been a

universal improvement in the people's standard of living, economic reform touches upon a wide range of issues, so many problems which have remained unresolved for a long time and have even become worse as a result of the new economic environment will now be even more difficult to deal with. Although there is nothing new about fiscal subsidies in Mainland China, the rapid pace of economic reform recently has caused state expenditures for fiscal subsidies to rise relentlessly. This represents a great drag upon the nation's overall economic development. The main purpose of this article is to analyze, from an historical standpoint, the causes and effects of China's fiscal subsidies.

Fiscal subsidies are a characteristic of all socialist nations. The provision of fiscal subsidies for domestic commodities by the Chinese Communists can be traced back to 1953. In that year, the Chinese Communists subsidized wadding cotton, but the amount was low and subsidies were limited to that one type of cotton. After that point, the scope and amount of subsidies gradually expanded, and the problem became particularly aggravated after the Third Plenary Session of the 11th Central Committee due to the effort to bring the economic structure into balance. China's fiscal subsidies now exist in endless variety. Everything is covered, and urban dwellers are "bestowed such bounties" from cradle to grave. For example, if you are an only child, you enjoy subsidies from the moment of your birth. When you go to school, your school books are subsidized. Clothing (cotton, cotton products, and leather), food (grain, oil, meat, eggs, vegetables), shelter (housing, heat, water and electricity), transportation (monthly passes for the bus and subway), articles of daily necessity (coal, soap), and medical care are all subsidized. In addition, the government also subsidizes enterprises and foreign trade. In short, China's fiscal subsidies are everywhere.

Using Agriculture To Subsidize Industry

The form of fiscal subsidies in China has been shaped by historical conditions. After the Chinese Communists officially came to power, China's low level of production and years of foreign domination and civil war convinced the Chinese Communist leadership that they would have to make China strong in order to consolidate their regime. They felt that the first task in making China rich and powerful was to develop industry. However, because of the low level of productive forces, the nation itself lacked sufficient funds to invest in industrial development, so the only way to raise funds for investment in industrial development was to sacrifice the interests of the peasants. The government achieved this through low priced unified purchasing of agricultural products, collecting large quantities of resources from agriculture which were then supplied to urban industry and residents at low prices by means of a unified marketing system. Low priced materials kept the cost of industrial product low, and low priced agricultural products assured a certain physical standard of living for urban residents. This kept wages at a low level, which in turn kept the costs of industrial production low. In this

manner, the state was able to raise money from the peasants to invest in industry. In other words, Chinese Communist fiscal subsidies were in fact a matter of agriculture subsidizing industry.

The problem of using agriculture to subsidize industry was not alleviated when new economic policies came to be implemented; on the contrary, the problem became worse. Ever since the Third Plenary Session of the 11th Central Committee, in an effort to stimulate agricultural production, the state has gradually raised procurement prices for agricultural and sideline products in hopes that this would encourage peasants to increase production. Nevertheless, in order to assure that the standard of living of urban residents would not be adversely affected, after increasing procurement prices for agricultural and sideline products, the state did not raise retail prices by a corresponding amount, with the result that procurement agencies have been buying high and selling low. The government has subsidized these agencies to make up for the difference. For this reason, state subsidies to agricultural and sideline products have risen steadily since 1978.

A Vicious Cycle

In foreign trade, fiscal subsidies have also been indispensable. In socialist countries, foreign exchange rates are generally set by the state, and the Chinese Communists, for various reasons, have generally overvalued the renminbi. This has had a great impact upon foreign trade. Overvaluation of the renminbi has put Chinese export products at a price disadvantage. In order to increase exports, the state has had to use subsidies to lower the price of its export products. Because the Chinese Communists in recent years have been implementing an "open door" policy, the actual foreign exchange value of the renminbi has been further lowered, and state subsidies for export products have grown larger. As for imports, although the overvaluation of the renminbi has been beneficial to imports, many import items have lost a lot of money because the relative domestic price structure is very much out of sync with the price structure in the international market place. Because domestic supply of some products falls far short of demand, the state has had no choice but to use import subsidies to get these products.

As for enterprise subsidies, in addition to providing low priced raw and semifinished materials as well as energy to enterprises, the government also subsidizes some money losing enterprises. Some state run enterprises with low production efficiency lose money year after year. However, because state enterprises provide a living for a large number of workers and staff, if money losing enterprises were to go out of business, large numbers of workers would become unemployed, which would lead to serious social problems. There is no way that China, which has always pointed to government services as proof of the superiority of the socialist system, could accept unemployment among a large number of workers,

so the state subsidizes these money losing enterprises to keep them in business, thereby maintaining social stability.

Under the impact of China's recent policy of opening up, prices for energy and raw and semifinished materials have continually risen. In addition, in order to reduce the pressure of rising prices upon people, the government has asked enterprises to absorb the effects of rising prices for raw and semifinished materials, so they cannot raise the prices of their products by a corresponding amount. This has exacerbated the unprofitability of money losing enterprises. In a recent study of more than 10,000 state run enterprises, the Industrial and Commercial Bank of China stated that 63 percent of these enterprises are suffering hidden losses totaling 10.83 billion renminbi. In such circumstances, state subsidies to enterprises have been spiraling upwards in recent years.

For the various reasons listed above, Chinese Communist leaders have insisted on continuing fiscal subsidies. Nevertheless, the ill effects brought upon by fiscal subsidies are a problem that cannot be overlooked. In the past, because fiscal subsidies were not so great in scope or amount, the people did not pay too much attention to their side affects. As China's economy has opened up, the scope and amount of subsidies have expanded, and their negative side affects have become more apparent.

A Distorted Price System Cannot Be Brought Into Balance

In the first place, it would not be possible for fiscal subsidies to bring into balance a price system which has always been distorted; on the contrary, they exacerbate the divorce between the price and the value of commodities. Because fiscal subsidies are carried out without reference to prices, no amount of subsidies, great or small, will enable prices to accurately reflect value. The greater the amount of the subsidy, the greater the degree of divorce between price and value. The longer a subsidy continues, the longer divorce between price and value continues. In other words, there can be no chance to change distorted prices as long as fiscal subsidies are in place. However, because fiscal subsidies touch upon the distribution of interests, they are easy to hand out but difficult to take back. Any attempt to do so would inevitably draw fierce opposition.

In the second place, fiscal subsidies have become a heavy burden upon the state. Part of China's fiscal subsidies are accounted for as fiscal expenditures, while another part is subtracted from tax revenues and profits handed over by enterprises, and they do not show up as fiscal expenditures. In either case, an increase in fiscal subsidies not only decreases state revenues but also increases state expenditures. The table included here shows the total amount of fiscal subsidies in China from 1978 to 1989. The table shows that China's fiscal subsidies have been increasing by leaps and bounds since the beginning of reform and opening up. For example, in 1978 they only totaled 1.114 billion yuan, but by 1989 they had

already grown to 37.043 billion yuan. One must realize that because fiscal subsidies are closely related to circulation, consumption, and the development of production, even if the scope of fiscal subsidies is not changed, as long as the economy continues to develop, the total amount of fiscal subsidies will naturally grow.

A Gordian Knot Within the Planned Economy

Since fiscal subsidies are such a heavy burden upon the government, why is the government unwilling to immediately eliminate them? This question is worth studying. Fiscal subsidies can be seen as an accoutrement of the planned economy. Their role is to strengthen the guiding position of the planned economy. For example, if the government hopes to develop a certain industry, it will provide subsidies to enterprises in this industry, or supply low priced raw and semifinished materials to the industry. In addition, in order to assure that certain commodities will remain in production and circulation, the government can also subsidize this commodity in order to strengthen its control in this area. Thus, as long as the planned economy exists, the Chinese Communist leadership will not eliminate fiscal subsidies, which are helpful to the planned economy.

Total Chinese Communist Fiscal Subsidies (1978-1989)

Year	Total
1978	1.114
1979	7.920
1980	11.771
1981	15.941
1982	17.222
1983	19.737
1984	21.834
1985	26.179
1986	25.748
1987	29.460
1988	31.682
1989	37.000

unit: billion yuan

Source: *Chinese Statistical Yearbook*, 1990 (China Statistical Publishing House, 1990)

From the point of the view of a producer, fiscal subsidies can reduce production costs, but in the long run, this type of measure inhibits technological progress. According to the theory of the market mechanism, backward or outdated industries are inevitably eliminated due to competition. However, although the production efficiency of backward enterprises in China is very low, these enterprises can still survive because they get loss subsidies from the state. In other words, fiscal subsidies are like a reserve parachute for these backward enterprises, and precisely because they receive these subsidies, money losing enterprises are not interested in making improvements. They are continually wasting the

resources of the state. In addition, the prices of imported raw and semifinished materials are higher than those of goods produced domestically. The state absorbs the losses and enterprises compete to procure the imports, thereby ignoring the development and utilization of domestic resources.

For the average consumer, although fiscal subsidies are implemented to offset price rises, the actual benefits vary from one person to the next. For workers who receive just enough in subsidies to offset price rises, subsidies have no great impact. If they receive more in subsidies than they pay out in rising prices, then the subsidies represent extra income. However, if subsidies are not enough to offset rising prices, a worker's relative income level is lowered. One must realize that because prices for many small commodities have been deregulated in recent years, the growth rate of the national price average has remained very high, and fiscal subsidies have not generally been able to offset rising prices. If a worker's income remains unchanged, his burden will become heavier.

In short, China's fiscal subsidies are an historical burden upon the state, and this burden is becoming heavier and heavier under new economic policies. Because fiscal subsidies are inextricably linked to the planned economy, the Chinese Communist leadership has not been able to take vigorous action to do away with the state's irrational subsidy system. It is clear that subsidies are not only a heavy burden upon the state's fiscal resources, but they even hinder efforts to bring the economic system, which has been irrational in the past, into balance. If nothing is done to eliminate fiscal subsidies, China's economic development will grind to a halt, there will be no chance for further breakthroughs, and the backward state of China's economy will not be improved.

Tax Evasion, Causes, Remedies

91CE0647A Dalian CAIJING WENTI YANJIU
[RESEARCH ON FINANCIAL AND ECONOMIC
PROBLEMS] in Chinese No 6, 5 Jun 91 pp 49-52

[Article by Shen Changjiang (3088 7022 3068); Editor: Xu Bingchang (1776 3521 1603): "A Psychological Analysis of Tax Evasion Causes and Remedies"]

[Text] Tax evasion has become a major public issue, not only occurring on a large scale, but also increasing in amount. From 1986 to 1990, Dalian discovered tax evasion amounting to 41.31 million yuan, 44.19 million yuan, 52.95 million yuan, 126 million yuan, and 136.11 million yuan, respectively, for successive increases over the preceding year of 6.97 percent, 19.82 percent, 137 percent, and 8.02 percent, respectively, and an average rate of increase of 34.73 percent. Tax evasion not only directly decreases national revenue, which slows modernization progress, but also has an adverse impact on the correct implementation of legal tax administration, which affects stability and unity. Thus, this article will

begin to explore certain tax evasion problems, such as its psychological manifestations, causes, and remedies, in hopes that they can be further resolved.

I. Psychological Manifestations of Tax Evasion

As taxpayers have varying social standings, social and economic relations, and literacy levels, their tax evasion psychologies also differ, and can be put into the following rough categories:

1. Trusting to Luck

Trusting to luck is a psychological attempt to gain economic benefits through chance success in tax evasion. Taxpayers with this mentality are fully aware that they are violating the law, and that such violations have necessary consequences. They express this in the following three major ways: 1) Deception: They generally regard legal tax payment as an undeserved donation, feeling that it takes from their purses money that they love dearly and cannot do without. They usually take fraudulent steps, such as arbitrary apportionment of expenses, interception and retention of profits, and keeping false accounts to conceal income, in order to deceive tax collectors and achieve their aim of tax evasion. 2) Opportunism: As they generally think that "the taxes that they evade are their own money, which does not belong to the state," they rack their brains to study tax laws, take advantage of loopholes in tax laws, tax collection policies, and tax collection management, "play along the edges," exploit loopholes, and seize chances for private gain, in order to evade taxes. 3) Risktaking: As they generally feel that tax evasion takes guts and is a means to get rich, they stop at nothing to achieve their ends. For instance, the tax evasion by a clothing factory on a certain street in Dalian was governed by this mentality of trusting to luck. Ever since it went into operation, this factory falsely reported the number of school graduates working there, reporting the 18.26 percent of its staff members and workers who were actually school graduates as 45.6 percent, thus evading 34,000 yuan in taxes. Another foreign trade corporation, which used imported steel ingots to make foreign-commissioned steel products, acted in collusion with its commissioners, with one party not deducting and paying taxes on its commissioned work, and the other not declaring the taxes that it should pay, seized every chance to gain advantage by trickery, and evaded 684,000 yuan in taxes.

2. Keeping Even With the Joneses

Another psychological manifestation of tax evasion is the "keeping even with the Joneses" mentality of "If you evade taxes, then I will either have to also or suffer," and "How do I not lose out by not evading taxes when you do?" Taxpayers with this mentality express it in the following ways: 1) Waiting and seeing: When new tax categories are introduced or tax rates are raised, some taxpayers are prone to take a wait-and-see approach of "you watch what I do and I will watch what he does,"

passively bide their time by taking the attitude that "I will pay if you do, but will not if you do not," watch how things develop, and refuse to take the first step. Some exploit the "time lag" by paying either early or late to evade taxes. 2) Demanding equal treatment: When individual tax quotas are set, some taxpayers are prone to compare quotas, and demand equal treatment and balance with others. If their quotas are set higher than others', they will certainly get even either by hook or by crook. Others compare overdue tax and fine payments by demanding "equal treatment," and asking "Why make me pay overdue taxes but not him?," and "Why fine me but not him?" And yet others will evade taxes next time even though they were fined this time. 3) Imitating: As some taxpayers generally imitate other tax evaders, feeling that they will suffer if they do not evade taxes also, they try to "keep even with each other" by showing absolutely no weakness, and not hesitating to defy the law. Although the state raised the prices of some commodities for wholesale enterprises in 1988, requiring them to pay business, energy, transport, and key construction taxes on stipulated income transfers to circulating funds, enterprises in some counties and districts compared and bided their time, and almost 80 percent of units did not voluntarily declare and pay these taxes, which resulted in large-scale tax evasion.

3. Dependency

Dependency is an irresponsible psychology that counts on turning to social relations for help, while seeking to evade taxes through one's own efforts. It is expressed as follows: 1) Dependency on responsible departments: As some enterprises are star enterprises that are supported by trades and departments, generally have a subjective mentality of dependency on their responsible departments, and feel that discovery of tax evasion does not matter because the higher authorities will defend them, they are secure in the knowledge that they have strong backing, willfully keep and get behind in tax payments, and evade taxes. 2) Dependency on tax collection departments: As the current tax collection management practice among many enterprises is for the keeping of accounts and even the calculation of tax payments to be handled personally by specialists, some enterprises deal with relevant tax collection problems according to the advice offered by specialists, and take that attitude that "I will do anything that you will let me, but any problems that arise are not mine." Moreover, as these specialists are subject to factors, such as too many accounts to keep, too many tax categories, a poor sense of duty, fear of giving offense, and muddling along, it is hard for them to keep from making careless omissions and mistakes, which presents opportunities and pretexts for tax evaders. 3) Dependence on "official connections": Some taxpayers take advantage of their personal power and influence or networks of friendly connections, and take the attitude that "nothing can be pinned on me, and I can deal with anything that is discovered," in order to evade taxes openly. If tax departments discover problems, they can either bribe tax collectors, ask someone to

intercede for them, or have higher level departments put pressure on tax departments, in order to turn major problems into minor ones and then eliminate minor ones. Since China put appreciation taxes into effect in 1984, 50 percent of state-owned enterprises, 70 percent of collective enterprises, and 100 percent of township enterprises have had to commission tax specialists to settle their accounts and calculate their taxes, because their own accountants are incompetent. Enterprises feel that, as taxes are calculated by specialists anyway, problems that arise are not their concern, since even their own tax department cadres do not consider appreciation tax problems to be tax evasion. This overpronounced dependency and lack of a sense of duty have caused large-scale tax evasion in this area. Statistics indicate that appreciation taxes alone account for about 20 percent of the errors and omissions discovered in general tax audits each year.

4. A Devil-May-Care Attitude

The devil-may-care attitude is one of indifference to or contempt for tax laws. It is expressed in the following three forms: 1) No sense of shame: Many tax evaders feel that violations of tax laws are not as serious as those that involve the criminal law, and are "insignificant in comparison to" many other unhealthy social tendencies. Thus, regardless of how much taxes they are discovered to have evaded, they invariably feel less shame than they would for other crimes, such as graft or embezzlement. Some tax evaders boast openly that "even if caught, I could spend only three years in prison at most, and would still have 10,000 yuan when I got out." 2) Tax evasion in the public interest: Some enterprise units evade taxes boldly, feeling that "as tax evasion is in the collective interest anyway, and the money does not go into private purses," gaining collective advantages is a glorious thing to do. Others feel that as tax evasion penalties generally do not involve their personal economic interests, since overdue tax payments and fines come out of collective funds, it makes no difference to them. 3) Tax evasion as extortion: Some feel that, as they are state-owned enterprises, holding back a little tax is a reasonable matter of the state spending what it has earned. Others feel that, as they are collective and private enterprises, which make contributions by providing employment and sharing in the nation's cares and burdens, "spending" a little tax during production slumps is all right. And yet others feel that, as their enterprises are limited by industrial policy and structure, which are like congenital deficiencies that cause poor postnatal development, tax evasion is the only way to make up such losses and gain benefits. For instance, a 1990 tax audit of a certain state-owned enterprise discovered errors in the enterprise's tax calculation, which caused some hundreds of thousands of yuan in tax evasion. When it was made to pay its back taxes plus fines, its leadership repeatedly begged for leniency, saying things, such as "Since we are a state-owned enterprise, the money we earn belongs to the state, and we are now experiencing difficulties, the taxes that we

evaded should not have to be paid into state coffers. It is hard for enterprises to make money, and we are working in the collective interest."

5. Defiance

Defiance is resistance against and contention with tax collection departments by taxpayers over taxation issues. It is expressed in the following forms: 1) Being fed up with taxes: As some taxpayers are disgusted with paying taxes according to law, they make sarcastic remarks about tax collectors who are performing their public duty, ridicule, curse, and call tax collectors "big grey wolves," and in some cases even criticize tax collection as arbitrary fee collection and misapportionment. 2) Evasion: Some taxpayers couple threats with promises in dealing with tax collectors over tax issues, and set forth a myriad of reasons for evading taxes. Others frequently change the items they deal in and their business licenses, and fight guerrilla wars with tax collectors, in order to evade taxes. 3) Resistance: Some taxpayers have moved from dodging tax collectors to open tax resistance, harassing them with unreasonable demands, repudiating debts, and even beseiging and beating them, which are serious violations of the criminal law. For instance, the owner of an auto parts and body shop in a certain district was in arrears with his tax payments. Despite repeated pressing for payment by the tax department, he continued to shift responsibility, stall, and finally disappeared and refused to pay his taxes. He is now being investigated and prosecuted by a certain people's procuratorate, which is investigating and affixing his criminal responsibility.

These five tax evasion psychologies are derived from the perspective of the taxpayer alone. Of course, tax departments themselves are also involved in tax evasion. For instance, tax collectors also have tax evasion psychologies, such as currying favor, vanity, and fear of giving offense. As expressed in action, these psychologies come out as a poor sense of duty, which prevents tax evasion from being basically controlled.

II. The Major Causes of These Tax Evasion Psychologies

1. Our Tax System Is Irrational in the Following Ways:

A. Our Tax system Is Imperfect. Our current tax categories are too numerous, topping 30, and our tax calculation methods are too complex, including calculation and payment according to both proportional and progressive tax rates, plus collection by quota, which makes taxpayers feel awed and fed up. Some tax categories do not have the nature and significance of taxes, and are published and implemented as various "fees" and "funds," which leaves taxpayers with an unclear distinction between taxes and fees. Some tax categories and collection policies were not established by legislative procedure, so that their enforcement is "flexible" and "accommodating" in many places. In particular, some policies "change unpredictably," with an addition here and a

revision there, so that neither taxpayers nor collectors know what to do. This makes solemn tax laws weak, and produces the taxpayer mentality of trusting to luck.

B. Our tax burdens are unfair. Our current tax burdens are unfair and "overweighted toward those who work the hardest!," which has become a troublesome problem encountered by taxpayers in their participation in social distribution. The various sectors of our economy are subject to nonuniform tax laws and unequal tax burdens. State-owned enterprises have higher tax burdens than collective or private ones, inland enterprises have higher tax burdens than foreign trade enterprises, and there are too many tax categories, too many calculations, and sometimes even duplicate calculations. The tax burdens of large- and medium-sized enterprises have topped 67 percent (not including regulatory taxes), which has put great pressure on enterprises, sapped their self-upgrading and self-development capabilities, and caused the "keeping even with the Joneses" tax evasion psychology, and tax evasion by all means possible.

C. Our penalty regulations are unclear. The penalty regulations on tax violations in our current tax system are too general, make unclear demands, are too sweeping, and do not work well. In particular, the stipulation in our "Provisional Regulations on Tax Collection Management," that fines will be less than five times the evaded taxes, gives tax evaders an opportunity that can be exploited to their advantage, so that when confronted with tax penalties, they often do not sincerely mend their ways and pay up their back taxes according to law, but use their pull instead to get out of it, by turning major issues into minor ones and then eliminating minor ones. Those who have no connections lose their balance, go around cursing and blaming everyone and everything but themselves, and even develop a psychology of risk-taking and defiance to evade taxes.

2. Our Tax Management Contains the Following Flaws:

A. Our basic tax collection work contains the following weaknesses: 1) our tax registration is neither accurate nor strict. Some managers have not gone through tax registration formalities or declared their taxes for years, so that their management operations have not been under the control of tax departments; 2) our tax payment guidance work has not been kept up. Some tax collectors transmit and explain tax policies perfunctorily and carelessly, and others even fill out tax guidance reports in their offices, which leaves tax management out of control; 3) the irrational proportions of collectors, managers, and auditors sometimes results in work disputes, shifting of responsibility, and too much internal waste, which produces dependency among tax evaders.

B. Our tax audits and penalties are not enforced strictly. Our current regulations provide for 100 percent audits of only the preceding year's taxes, which causes emphasis on quantity to the neglect of quality, superficial understandings through cursory observations, attention to one aspect to the neglect of others, superficial investigations,

and spreading formalism. In addition, auditors do not strictly enforce penalties for discovered evasions, so that while many evasions are uncovered each year, more attention is usually paid to written audits and payment of back taxes than to imposing fines, and even less to enforcing criminal penalties, which leaves tax evaders not much in awe of the power of auditors. While Dalian discovered 14,189 cases of tax evasion in 1989, only 13 of them involving 15 people were placed on file for investigation, prosecution, and affixing of criminal responsibility, which created a mentality of risktaking and opportunism among tax evaders.

C. The responsibilities of tax departments and enterprises are not distinguished clearly. Our current tax management system does not clearly distinguish the respective duties of tax departments and enterprises, which leaves both sides with no legal restrictions when implementing tax laws, no legal sanctions for violations of law or dereliction of duty, interdependence and shirking of responsibility by tax collectors and taxpayers, and a devil-may-care attitude among tax evaders.

3. Our Legal Concepts Are Hazy in the Following Ways:

1) Our whole society has little awareness of tax laws, so that our tax laws are poorly publicized, and public censure for tax evasion is clearly less than that for other crimes. 2) Some leading cadres have little awareness of tax laws, so that they often sympathize with and intercede on the behalf of tax evaders; 3. Taxpayers have little awareness of tax laws, so that they regard tax payment as an extra burden instead of a duty. In addition, the poor awareness of tax laws is also evident to varying degrees among some tax collectors. Some have a poor sense of duty, so are content with a superficial understanding of their profession instead of striving for constant improvement. Others are afraid to offend no matter how much taxes are evaded, and a handful even tip off taxpayers to investigations, and offer advice to help them evade taxes.

III. Suggested Remedies

Based on this investigation and analysis, we feel that guarding against the development of tax evasion psychologies, and resolving our increasingly serious tax evasion problems, have become key tasks, which our tax departments must take forceful steps to accomplish. Thus, we are suggesting the following remedies:

1. We should strengthen our propaganda and indoctrination regarding tax laws in the following ways:

A. Tax law propaganda should be made a part of our legal indoctrination. When drawing up legal institution indoctrination plans, propaganda departments at all levels should put tax law indoctrination on their agendas, and launch full-scale universal indoctrination campaigns.

B. Tax law indoctrination should be made a part of our elementary education. We should offer tax law classes in

grade and high school, so that our people will know about, understand, and observe tax laws from childhood on.

C. Propaganda about tax laws should be aimed at leaders at all levels. All meetings should be taken advantage of to explain and publicize tax laws to leading cadres, in order to heighten their awareness of tax law enforcement;

D. Tax departments should broadcast joint tax law lessons with radio and TV stations, start special newspaper columns on tax laws, shoot tax law propaganda TV films, and spread tax law propaganda to every corner of society, in order to make tax laws known to all.

E. We should hold regular mass meetings to publicize model cases of paying taxes according to law and expose major cases of tax evasion, in order to develop a social atmosphere in which paying taxes according to law is a honored, while tax evasion is shameful.

2. We Should Build a Stronger Tax System as Follows:

A. We should set rational tax categories. We should set rational tax categories and tax rates that are in line with China's actual political and economic conditions. Based on particular conditions, we should make the following revisions of our current more than 30 tax categories: 1) We should increase the scope of appreciation tax collections, streamline excessive income-linked tax categories, and make a transition from product and business taxes to appreciation taxes. 2) We should have uniform income taxes, by merging our current income tax categories into a uniform system of corporation taxes for enterprises and individual income taxes for the self-employed. 3) We should lower the minimum and expand the collection scope of regulatory taxes on individual income. 4) Certain tax categories in which the distinction between taxes and fees is unclear, as well as the various funds collected by finance departments, should not be collected by tax departments.

B. We should equalize tax burdens. We should improve our tax system by roughly balancing the tax burden on all sectors of our economy. We should lower our income tax rates in line with the widespread international trend of reducing income taxes. We should set rational tax rates, so that various trades and enterprises can compete on equal tax burden terms. We should implement Central-local tax separation as quickly as possible, in order to rationalize Central-local distribution relations.

C. We should complete our tax legislation. We should sum up and revise as quickly as possible our well-considered legislation, such as our major tax categories, individual laws, regulations, and measures, in order to complete our overall tax legislation. In particular, we should draw up as quickly as possible a "PRC Tax Collection Management Law," in order to make our tax laws stricter and more authoritative.

3. We Should Improve Our Tax Collection Management as Follows: 1) We should improve our coordination with and ties to the industrial-commercial sector, by establishing information feedback channels and reducing errors in industrial-commercial licensing and tax registration, in order to keep our tax sources under control. 2) We should intensify our tax payment guidance, change our past auditing guidance methods of emphasizing guidance reports over contents and results, and coordinate taxpayer payment conditions with special management work. 3) We should have a better understanding of the distinction between collection, management, and auditing, and stop emphasizing auditing to the neglect of collection and management. We should emphasize that tax collection management is a basic tax collection job. 4) We should draw up a set of orderly auditing regulations, in order to give direction to our auditing, ensure quality, and resolve problems. 5) Based on the principle of severe punishment for repeat offenders, we should publicly expose and deal with discovered tax evasions, and absolutely not be overlenient.

4. We Should Take the Following Steps To Make Our Tax Collectors More Competent:

A. We should establish good models of tax collection according to law and honesty in the performance of official duties within our tax system, intensify the indoctrination of our tax collectors in devotion to their work and cultivation of a sense of duty, and arouse the enthusiasm, initiative, and creativity of our tax collectors to act in the interests of the state.

B. Based on their various conditions, we should train our tax collectors level by level, enhance their sense of duty in enforcing the law, and improve their understanding of economic, tax collection, financial, and accounting theory, as well as their work capabilities, in order to adapt them to the needs of tax collection work under new conditions.

C. We should reform and improve our cadre system. Until rules for government functionaries are put into effect, we should intensify our study of cadre management theory, introduce modern, scientific management means and methods, and establish competition and encouragement mechanisms, by rewarding diligence, punishing indolence, keeping the best, and weeding out the worst, so that talent is put to the best possible use, and the initiative and creativity of all cadres are brought into full play.

5. We Should Exercise Overall Control as Follows:

A. We should do a good job of controlling enterprise accountants. Finance and tax departments should join together to examine and approve the qualifications of enterprise accountants, who should be allowed to work only after being approved. Moreover, these departments should oversee the accuracy of accounting work. Special meetings should be held each year to commend good tax accountants and publicly deal with negative examples of not implementing accounting rules conscientiously and not keeping tax accounts according to law.

B. Discipline inspection departments should do a good job of overseeing tax law enforcement by party members and leading cadres at all levels. Disciplinary action should be taken against party members and leading cadres who evade taxes.

C. We should develop stronger ties with judicial organs, so that cases of tax evasion that are turned over to procuratorial organs are prosecuted strictly according to law.

Past Problems, Future Prospects for Fiscal Reform

91CE0667A Chengdu SICHUAN DAXUE XUEBAO
in Chinese No 2, 23 Jun 91 pp 3-9

[Article by Feng Zongrong (7458 1350 1369): "Fiscal Reform Results, Problems, and Solution"]

[Text] The Seventh Plenary Session of the 13th Party Central Committee stated that "the period 1991-2000 will be an extremely crucial period in the historical process of China's socialist modernization." It will affect "the nation's ability to consolidate and develop during the 1990's the achievements won during the 1980's," as well as "realize the second strategic objective in modernization." A brief review and deep reflection on results, problems, and basic experiences gained during the fiscal reforms of the 1980's, and an exploration of the macro-economic strategy and basic remedies for fiscal reform during the next 10 years holds not only direct significance for the deepening of fiscal reform as we enter this crucial historical period, but it also plays a positive role in widening avenues of thought about overall economic reform, and in promoting realization of strategic goals for the 1990's.

I.

Reform of the nation's economic system began in the distribution realm where fiscal reform was carried out first and gradually deepened. Emphasis during reform has been on the key area of improving enterprise vitality, and on the main theme of developing a socialist commodity economy. A series of major changes were carried out in the fiscal field: (1) Focusing on the centralized receipts and centralized disbursements in the traditional fiscal system and nationwide abuses in "eating out of a large common pot" no matter one's individual contribution to it, reform of the budget control system received attention first. In 1980 and in 1985, new systems were instituted for "separate receipts and disbursements and contracting at various levels," and for "separation of different kinds of taxes, authorizing receipts and disbursements, and level by level contracting." In 1988, various kinds of "budget balancing" systems were put in place as well. These reforms increased the transparency of financial distribution relationships between the central and local governments, and put the national budget system in a position to use the tax distribution system as a basis for taking a significant step toward level-by-level fiscal responsibility. (2) To readjust the ossified and

distorted revenue apportionment relationship between the state and enterprises, fairly thorough reform of the financial distribution system in state-owned enterprises was also carried out. Since 1978, the state has put in place enterprise fund systems, various systems for dividing up profits, and the two step system for "substituting the payment of taxes for the payment of profits." Beginning in 1987, it also promoted contract responsibility systems in enterprises. (3) By way of meeting needs for development of a socialist commodity economy, it reformed and perfected tax collection rules and regulations, and the tax collection system. It substituted product taxes, added value taxes, and business taxes for industrial and commercial taxes; collected an income tax from enterprises; made preliminary moves to set up a fairly complete tax system applicable to foreign nationals; began the collection of some new kinds of taxes, and preliminarily completed a change from an undiversified tax system to a complex tax system regulated through multiple links, multiple taxes, and multiple levels that places equal emphasis on both taxes on transactions and income taxes, and in which various associated taxes co-exist. (4) To improve results obtained from the use of government funds, government "budget restrictions" on units use of funds, and controls over the size of investment were toughened. In the government financial investment system, major reforms were carried out principal of which were "funding by loans rather than allocations," and a "capital construction fund system" for investment in capital construction, and banks providing and controlling all working capital. Additionally, a series of reforms were instituted that included a system for public institution fiscal controls, a rural fiscal and financial control system, a science and technology disbursement system, and expansion of government credit.

As a result of the foregoing multi-level, all-points reforms, profound changes occurred in the financial realm. Irreversible major advances and world-arresting achievements were made that were manifested in a concentrated way in the following regards:

(A) In terms of overall achievements, fiscal reforms played a positive role in maintaining the deepening of reform, in ensuring economic stability, in promoting economic development, and in improving the people's standard of living. Despite the regular financial difficulties of the government since the beginning of reform, even while carrying out reforms of its own, the government continued to allocate large amounts of money to support other reforms, particularly price reforms, which provided powerful fiscal support for the deepening of reform. One might say that without fiscal support, not only would it have been difficult to begin the initial reforms, but it would have been impossible to move ahead with subsequent reforms. The use of various financial and tax levers such as government subsidies greatly lightened the pressures and burdens on other economic levers. Readjustment of financial and tax policies and fiscal distribution relationships also played

a role in regulating the interests of all parties, and in easing conflicts of interests of all parties concerned. This greatly reduced conflicts and frictions in the operation of the economy, and, to a certain extent, played the role of a regulator and a stabilizer in the operation of the economy. A series of measures that delegated authority and granted concessions that were part of fiscal reform greatly aroused the interest in production of enterprises, and of staff members and workers, thereby infusing vim and vigor into national economic development. The fixed assets and the basic facilities created through government investment lent powerful support to the development of key construction projects and strategic industries for an increase in reserve strength needed for socio-economic development. In addition, the effectiveness of fiscal reforms in improving the people's livelihood are obvious to all. The more than 10 years of fiscal reform was an outstanding period in which the people gained the most material benefits, and in which their standard of living improved most. This laid a solid social foundation for carrying out economic reform.

(B) Fiscal reform adjusted seriously distorted distribution relationships. As a result of many years of unflagging efforts, the seriously distorted distribution relationship existing in the former financial distribution pattern between the state and enterprises, and between the central government and local governments were adjusted. (1) Thanks to a change to the payment of taxes instead of the delivery of profits, and promotion of the contracting system, the "father and son relationship" between the state and enterprises under the traditional system, as well as the unregularized economic relationship in which haggling between the two was a part gradually gave way to contracting and standardized payments of taxes according to law. Distribution relationships between the state and enterprises became increasingly stable and clear; enterprises gained an expansion of their autonomy; financial resources under their own control grew rapidly; and their vitality increased. (2) With implementation of "the system of dividing revenues and expenditures between the central and local governments and holding each responsible for balancing its own budget," and the system of contracting receipts and expenditures, central government and local financial distribution relationships also greatly improved. The arrogation of all powers of financial distribution to the central government that existed under the traditional system began to change in the direction of mix of echelon-by-echelon management, level-by-level control, appropriate centralization and appropriate dispersal, local governments gradually gaining a certain amount of financial authority, financial resources, and economic control authority. This stirred the interest of local governments in managing their financial affairs and in opening up new sources of revenue while cutting back on expenditures. Especially, with the implementation of a contract system characterized by the integration of administrative and financial authority, which combined responsibility, authority, and benefits, a level-by-level fiscal system began to take shape.

(C) The highly centralized fiscal control system took a heavy pounding while the new fiscal macroeconomic regulation and control system and operating system were in an embryonic form. Since the beginning of fiscal reform, the traditional fiscal control system characterized by a high degree of centralization and direct control came under strong attack, while the framework of a fiscal macroeconomic regulation control system and operating mechanism suited to the development of a socialist planned commodity economy began to emerge and function in the nation's real economic life. This showed up in the following concrete ways: Fiscal control goals shifted from the sole pursuit of a totally balanced annual budget toward complete regulation in which the allocation of resources, the distribution of income, and steady economic growth were regulated, and a balance between total social supply and demand realized. Fiscal regulation and control and methods employed changed from the sole use of quantity quotas and administrative directives as means of intervening in local governments' fiscal activities and enterprises' distribution activities to the application of macroeconomic fiscal policies, development strategies, and fiscal and tax levers as direct control and indirect regulation and control measures in combination to effect policy leadership, overall control, and structural changes in the distribution of national income. Fiscal regulation and control measures changed from the simple use of administrative methods in direct control to the general application of economic, legal, and administrative methods, and the application of largely economic measures to effect indirect control of the operation of the economy. Major changes also occurred in fiscal functions. No longer was emphasis placed solely on the function of distributing funds that have been raised and supplied; instead the distribution function and the economic levers function were given equal stress. Today, government no longer continues to play the role of central hub and main gate in raising and supplying funds. Instead a plan for the scale and form of distribution, selection of a receipt and expenditure apparatus, and the application of fiscal and tax levers enable government increasingly to take part in national macroeconomic regulation and control of the operation of the national economy, and this has become the basic means that the state uses to effect macroeconomic regulation and control.

II.

The direction of the nation's fiscal reforms is correct, and results have been remarkable. Nevertheless, even while reaffirming the effectiveness of fiscal reforms, it is also necessary to realize clearly the limitations of numerous factors in the overall economic reform process, as well as the restrictions that objective economic conditions impose. Quite a few problems also exist in fiscal reform, and quite a few real difficulties are faced.

(A) Too fast and too drastic readjustment of distribution relationships can lead to a scattering of financial resources, the center of gravity in distribution tilting excessively toward local governments and enterprises.

To stir the interest of all parties, the government has presented a series of measures for the delegation of authority and the granting of concessions since the beginning of reform. However, as a result of simplistic thinking about reform, one-track reform measures, and too rapid, too drastic, and too large steps in the readjustment of distribution relationships, in particular, some new problems have arisen in the course of the readjustment of financial distribution relationships. One is dispersal of financial resources, and a dramatic decline in the "two percentages." During the pre-reform period from 1953 through 1978, fiscal revenues as a percentage of national revenue averaged 34.2 percent. Since reform, simultaneous with sustained growth of national income has come a year-by-year decline in fiscal revenues as a percentage of national income. In 1980, it was 28.3 percent; in 1985, 26.9 percent; and in 1988, 19.3 percent. Simultaneous with the dramatic decline in fiscal revenues as a percentage of national revenue, central government revenue as a percentage of total fiscal revenues fell tremendously. The distribution ratio of fiscal revenues between the central government and local governments was around 7:3 and 6:4 respectively in the 1950's, and the 1960's. In the 1980's it fell to 50 percent each. In recent years, it has exhibited an inverse four to six, or even lower, distribution pattern. However, the central government and local governments share about half the budgeted expenditures. Second, the effective principle followed during the early period of reform by which "the state got the lion's share, enterprises got a modest share, and individuals got a small share" has been abandoned in practice. State-owned enterprise profit distribution percentages instituted in 1978 allotted 4.3 percent as enterprises' retained profits, 1.6 percent for "before-tax loan repayment," and 93.9 percent for payment to the central government. By 1988, these percentages were turned upside down, enterprises retaining 62.2 percent as profits, 21.85 percent going for "before-tax loan repayment," and a dramatic fall in the percentage paid the central government to only 15.93 percent. This means that for every 100 yuan of profit that an enterprise makes, the state gets only 15.93 yuan. This dispersal of financial resources, particularly the weakening of the central government's financial resources, not only limits the economic basis for the government to perform its functions and the effective discharge of its function as the main means of regulating and controlling the macroeconomy, but it is also the main reason for government revenues failing to offset expenditures and the year-after-year mounting deficits of recent years. Even more important, it shows that distribution relationships between the central government and local governments, and between the state and enterprises have not been truly straightened out.

(B) Fiscal reform has yet to make substantive breakthroughs or fundamental advances. A new system based on the socialist commodity economy has yet to be truly established. (1) Inasmuch as reform of the existing budgeting system and enterprise profit distribution system has been substantially carried out in accordance

with a line of thinking that calls for the reduction of taxes and granting of concessions to enterprises, and the sharing of administrative authority with local governments, these reforms contain numerous limitations. As a result it is difficult to budge the foundation of the traditional system to attain the anticipated goal of straightening out distribution relationships. First of all, even though tax reductions and the granting of concessions helps increase enterprises' profit motivation and a sense of their own rights and interests, since there is only economic stimulation without economic responsibilities and economic pressures, it is scarcely possible to avoid a certain asymmetry in enterprises taking responsibility for their own profits and losses, and resort to short term behavior. Moreover, since a rational apportionment of substantive authority between the central government and local governments and solution to the problem of a "long cycle" in contracting are difficult to solve, the system for "dividing revenues and expenditures between the central and local governments and holding each responsible for balancing its own budget," and the "contracting of receipts and expenditures" in which the division of administrative authority is a main ingredient, and in which revenues and expenditures are apportioned according to subordination abets regionalism to a certain extent, and strengthens regional blockading and cutting up of markets. (2) Since the base points established for the tax rates of various kinds of taxes in the existing tax system are largely for the purpose of making sure that fiscal revenues remain consistent, and that they fit in with the planning system need to make sure that the state exercises direct control over the economy, tax revenues today still derive mostly from taxes on transactions. The regulatory role of income taxes is limited and weak; thus, the role of a rigid tax collection regulation mechanism has been weakened in actual operation. Furthermore, the setting of income tax rates is extremely unstandardized, and double taxation is a fairly serious problem. This puts stumbling blocks in the way of enterprises trying to engage in equal competition to shape a sound commodity economy. This shows that the country's tax system has yet to make a fundamental transformation to a new tax system based on a planned commodity economy. (3) Since reform of the government investment system, government arrogation of investment authority and a single centralized investment entity have given way to numerous channels for investment, multiple investment entities, and multi-level investment decisions. Major changes have also taken place in fiscal functions. Nevertheless, the present situation shows that as a result of the limitations of various factors, the government's main energies are still not directed to indirect macroeconomic regulation and control, but are concentrated instead on raising huge amounts of construction funds to ensure the building of key projects, and on direct regulation and control. This is true in the organization of budgeted revenues, the issuance of treasury bonds and construction bonds, and the collection of funds for key energy and transportation construction projects. Raising of funds for use in organizing the economy is a basic function of socialist government

finance. This is beyond reproach. However, if government burdens in this regard are too heavy, and government becomes mired too deeply in direct intervention, this is bound to delay progress in developing from supply style government finance to the administration and management style government finance needed for the development of a socialist commodity economy. It also makes it difficult to put state indirect regulation and control of the operation of the economy on a regular track.

(C) Fiscal reform itself and its relationship to other reform was neither integrated nor coordinated. First, in moving ahead with fiscal reform, attention was given to one thing only to lose sight of others. Many individual reforms were made, but little comprehensive reform was done. Continuity was lacking in the dovetailing of actions that took place in succession. Some actions even conflicted with each other or cancelled out each others regulatory function. This was true of before-tax repayment of loans and fiscal subsidies. Second, fiscal reform frequently occurred in isolation rather than in a coordinated way. It was not synchronized with other reforms, particularly financial reform, price reform, and wage reform. Thus, it was difficult to obtain the benefits of scale from reform. For example, the goal of overall economic reform in the change to payment of taxes instead of delivering profits to the state was not sufficiently clear, and it was not carried out in step with other reforms. Because reform actions were not coordinated, reforms made hastily to deal with an urgent present need themselves became the object of yet further reform not long afterward.

III.

One important thing gained from a diligent summarization and deep reflection about practice in national fiscal reform was that it provided rich experience and lessons for the reforms of the 10 years that followed:

(A) Fiscal reform must adhere to the basic orientation of a planned commodity economy; it must help development of the socialist commodity economy. The socialist planned commodity economy is the underpinning for fiscal reform, and it is the orientation that must be adhered to throughout. Therefore, in the guiding thought for fiscal reform, it is necessary to break free from the influence of the product economy, and transcend the limitations of the period of change in systems. This should enable fiscal reform to move gradually toward unswerving realization of an economic system and an operating mechanism that combine the plan economy with market regulation for the building of a government finance macroeconomic control system that is both in keeping with needs in development of a commodity economy and that consciously applies the laws of value. The yardstick to be used in judging fiscal reforms is whether they advance development of the socialist commodity economy. In drawing up overall plans and development strategies for reform, or in selecting reform policies and specific actions to be taken, there can be no

departure from the goal of developing a socialist commodity economy and increasing enterprises' vitality. One must proceed from the multiple benefits of a commodity economy, recognize and respect the relatively independent economic interest of local governments and enterprises, and use both legal measures and rules and regulations to provide guidance and regulation, thereby coordinating reform actions with the country's overall interests for the shaping of an equitable benefits structure. The two basic criteria of fairness and efficiency must be upheld to set the stage for improvement of enterprises' economic returns and the conduct of fair market competition in the gradual building of a sound socialist commodity economic order.

(B) The simplistic reform psychology of delegating authority and granting concessions must be discarded for the establishment of clear-cut reform goals. China's economic reform began without sufficiently clear goals, and fiscal reform got off to an earlier start than other reforms. Inevitably, this ordained a certain amount of blindness in action in fiscal reform. A strategic conception of pervasive reform throughout was lacking; reforms largely followed the simple idea of delegating authority and making concessions. Practice shows that fiscal reforms that consist largely of the delegation of authority and the making of concessions have played an indelible historical role; however, it must be realized that sole emphasis on the delegation of authority and the granting of concessions not only makes it difficult to bring forth commodity producers who run their own operations and are responsible for their own profits and losses, but it also leads to overly rapid changes in distribution relationships between the state and enterprises, and between the central government and local governments, and goes beyond what the treasury can endure. The result is new distortions of fiscal distribution relationships. Therefore, a reform psychology in which the delegation of authority and the granting of concessions is the main component can scarcely continue. It must be resolutely abandoned, thinking about fiscal reform changed to the comprehensive straightening out of financial relationships for the building of a new fiscal system that is in keeping with development of a planned commodity economy.

(C) Fiscal reform must adhere to a combination of centralization and a suitable degree of decentralization. The dispersal of financial resources resulting in an excessive weakening of the central government treasury is a concentrated manifestation of current fiscal difficulties. The existence of this situation is extremely out of keeping with the leading position of central government finance, and the tasks for which it is responsible in supporting reform and construction, and improving the people's standard of living. Therefore, one important lesson of experience in fiscal reform is the need to adhere to a combination of appropriate centralization and appropriate decentralization, using this as the guiding thought for handling financial relations between the central government and local governments. Adherence

to appropriate centralization entails financial resources being concentrated in the central government. Decisive actions must be taken to increase central fiscal revenues to between approximately 50 and 60 percent of total financial revenues, using this expansion of central fiscal resources as a means of increasing and strengthening the central government's macroeconomic regulation and control methods and capabilities. This should be used as the basis for an appropriate degree of decentralization in which the general authority and financial authority of local governments at all levels is clearly defined. This should include an appropriate devolvement of financial authority and financial resources to local governments, and less central government meddling in local governments' exercise of financial authority, thereby stirring the interest of local fiscal units in administering their own finances, and in increasing revenues and reducing expenditures. It should also provide attendant material means for echelon-by-echelon administration and level-by-level regulation and control, thereby making use of the primary financial role of local governments.

(D) Fiscal reform must be completely coordinated with other reforms for effective joint action. China's economic reform began in the distribution field, but reforms in the distribution field usually require some financial reforms as a prelude. This has a historical imperative. However, practice in reform shows that unless fiscal reform is coordinated with reforms in other regards instead of being carried out alone, not only will it be difficult both to obtain the desired results from reforms and avoid clashes with other reforms, but it will pose hidden dangers for pervasive follow-on reforms as well. Therefore, objectively, fiscal reform must be coordinated with reforms in other regards. At the same time, reforms in other regards, particularly financial, wage, and price reforms also must be coordinated with fiscal reforms, and joint actions taken, and needed financial support provided. Otherwise it will be very difficult to move ahead with these reforms. Therefore, fiscal reform must be made a part of overall economic reform plans, everything being taken into account. This will enable its overall coordination with other reforms for effective joint action.

(E) A relatively comfortable external environment must be provided for fiscal reform. Fiscal reform should not only create a fine climate for reforms in other regards, but a relatively comfortable external environment is needed for this reform itself. If there are great ups and downs in the economy that require too much inflation and produce large deficits, fiscal reform will be placed in a passive situation that makes for hard going. Not only will it be difficult to stabilize the economy and sustain reform, but fiscal reform itself will be fraught with difficulties. Therefore, stability and continuity in policies must be maintained to hasten and deepen fiscal reform. Efforts should be directed toward the sustained, stable, and coordinated development of the national economy, keeping the government budget and overall social supply and demand substantially in balance as a

means of creating a relatively stable and comfortable policy, economic, and social environment for fiscal reform.

IV.

The next decade is an extremely critical period for fiscal reform. We must take a series of dovetailed and coordinated actions based on an accurate understanding of the orientation of reform and clear-cut reform goals that have as their primary thrust the correct handling of distribution relationships between the central government and local governments, and between the state and enterprises for further acceleration and deepening of fiscal reform.

(A) We must use the straightening out of distribution relationships as the focus for making the receipts and expenditures contracting system sounder and more perfect for a gradual transition from the contract system toward a level-by-level fiscal system founded on tax-sharing. The key ingredient in the fiscal reform goal model is the establishment of a relatively independent echelon-by-echelon fiscal system founded on the tax sharing system. However, a tax-sharing system requires a relatively well developed tax category system and economic environment, clear-cut government authorities, and tough budgets as a precondition. These conditions are not in being at the present time. Therefore, we will have to use gradual, dovetailed methods for a gradual transition from the existing contract system to a tax-sharing fiscal system. The first step, which is to be taken during the first five years, is perfection of the receipts and expenditures contracting system as a basic direction for reform. While using the positive role of the contract system in response to the gap in regional economic development and lack of standardization in financial and tax procedures, emphasis should be placed on readjustment of the existing apportionment methods and base figures for receipts and expenditures. The central government's apportionment percentage should be increased, budget limitations toughened, abuses curbed and advantages exploited for attainment of the goal of perfecting the contracting system. Simultaneously, tax-sharing system pilot projects should be run in conjunction with the conduct of price and tax system reforms to set the stage for the tax-sharing system. The second step in improving the contracting system is a gradual increase in the degree of use of the tax-sharing system in different areas as different circumstances warrant. Once conditions are ripe, a change should be made within the next five years from the contract system to the tax-sharing system. In the process of instituting the tax-sharing system, the following several principles should be upheld: First is differential handling and tailored implementation rather than treating all situations with "arbitrary uniformity." Account must be taken of the uneven regional development of the nation's economy, distinguishing among economically highly developed, moderately developed, and economically backward areas, instituting tax-sharing forms of different kinds and contents that reflect regional differences. Second is making sure

that financial authority and administrative authority are consistent, administrative authority determining financial authority. The tax-sharing system is a prelude to an echelon-by-echelon fiscal system, and the delineation of administrative authority is, in turn, a prelude to the tax-sharing system. Therefore, one of the keys to implementation of the tax-sharing system lies in spelling out the separate administrative functions of the central government and local governments, and overall consideration of all the factors having a bearing on expenditures to find corresponding sources of revenue. Third, in working out the kinds of taxes to be levied, it is necessary to adhere to a suitable degree of centralization in combination with a suitable degree of decentralization. This will not only ensure the revenues that are indispensable to the state's exercise of its macroeconomic functions but will also help improve central government macroeconomic regulation and control capabilities. It should correspondingly widen local government's financial sources and financial authority for coordinated consideration of central government and local government interests and distribution relationships. In deciding the kinds of taxes to be levied, consideration may be given to product taxes, added value taxes, and customs duties, as well as enterprise income taxes, a major part of which (between 60 and 70 percent) should go to the central government. Other sources of tax revenues that are fairly scattered, and kinds of taxes that the central government cannot easily administer, such as business taxes, resources taxes, transaction taxes, butchering taxes, real estate taxes, and individual income regulatory taxes, as well as a portion of enterprise income taxes (between 30 and 40 percent) should go to local governments.

(B) The "separation of profits and taxes" should be in accordance with the principle of "dual separation"; the contract system should be improved, and distribution relationships between the state and enterprises should be further regularized and straightened out. Since the beginning of reform, the contract system has been generally practiced in enterprises in accordance with the idea of a separation of two authorities. However, judging from the results obtained from the contracting system, this has been less than ideal. Numerous problems still remain, one prominent one being the short term behavior and even the lopsidedness of enterprises everywhere. A reason for this that runs deeper than the imperfection of the contract system itself lies in the as yet unclear defined dual status and dual role of the state, and the limitations of its two kinds of revenue. This results in unclear production authority relationships within state-owned enterprises. As a result, relations between the state and enterprises are difficult to straighten out fully. In a socialist system, the state plays a dual role as executor of political power and as owner of national assets, as well as the dual functions of organizing regulation and control of the economy and managing state-owned assets, which derives from these two roles. Correspondingly, the state has two forms of revenues: One is taxes and benefits from assets. Thus, in straightening out

the distribution relationship between the state and enterprises, relationships at the two levels must be clearly defined in determining the two kinds of revenue: One kind of relationship is the relationship between the state as an organ of political authority and enterprises as juridical persons. The form of revenue that expresses this relationship is the taxes that enterprises pay the state. The second relationship is that of the state as owner of state assets, and enterprises and the operators of state assets. The form of revenue that expresses this relationship is the sharing of profits between the state and enterprises. The "separation of profits and taxes" in accordance with the principal of "dual separation" proceeds from this foundation, which is to say that there is a separation between the state's economic regulation and control functions, and its function as the owner of state assets, and a separation between state ownership of assets, and authority to operate assets. This should be used as the basis in state and enterprise distribution relationships for a separation of profits and taxes, placing profits from assets under the enterprise contact system. Before-tax contacting, and before-tax repayment of loans should be changed to after-tax contacting and after-tax repayment of loans. In addition, enterprises' forms of contracting, time limits, base figures, and evaluation methods should be improved, and the toughening of restrictions on enterprises should be used as a mechanism for making enterprises' behavior more rational in the future clarification and regularization of economic relations between the state and enterprises.

(C) Adherence to the principle of fair tax burdens to encourage competition and give expression to the state's industrial policy in further reform of the existing tax system. For the next decade, the basic line of thinking and the overall task in tax system reform is as follows: The use of measures such as perfection of the tax system, a decrease in preferential treatment, better management, expansion of the tax base, and appropriate lowering of tax rates to increase the amount of tax revenues as a percentage of national revenue, striving to realize during the Eight Five-Year Plan the central government-set goal of government revenues accounting for 28 percent of national revenues. In addition is the task of building within 10 years a new tax system that is in keeping with development of a socialist commodity economy, in which taxes on transactions and the income tax receive equal emphasis, and in which there are many different kinds of taxes and regulation at many levels. In accordance with the foregoing line of thinking on reform, near-term tax system reform should focus on the following several matters: (1) A gradual merger into a single income tax of the present income tax that is collected at different rates on the basis of an enterprise's type of ownership, lowering the income tax rate, canceling the enterprise regulatory tax that appears to be a tax though it really is not, for a gradual standardization of the income tax in order that the tax burdens of various different kinds of enterprises are general equal, thereby creating an external climate favorable to equal competition among enterprises. (2) Double taxation should be

gradually abolished in collection of the tax on transactions, and perfection of the value added tax should be used as the basis for an expansion of its use nationwide, full use made of the role of taxes in readjusting the industrial structure and forms of consumption. (3) Collection methods should be improved and the scale of collection expanded for resources taxes to promote equal competition among enterprises and effective use of resources. (4) Greater control should be exercised over reductions and exemptions from local taxes, while emphasis should be placed at the same time on the establishment of an independent local tax system to set the stage for the tax-sharing system. (5) Abolition of bonus taxes and wage regulation taxes, which do not play a very large regulatory role, revising and initiating the collection of some new forms of taxation that do have a special regulatory role such as consumption taxes, printing taxes, and banquet taxes. In addition, the building of a legal system for tax collections should be accelerated, and the tax administration system should be reformed as means of improving the effect of the law in tax collections and in straightening out the tax management system.

(D) Revision and sorting out fiscal subsidies to improve returns from government investment of funds. The range of government subsidies is too broad at the present time; there are too many kinds of subsidies; and the amount is enormous. They far surpass the ability of the government to support them. Therefore, one of the important components of the deepening of fiscal reform during the coming decade will be greater control over government subsidies, reform of government subsidies to be carried out in a planned step-by-step way. (1) Associated price reforms, revision and clarification of the range of price subsidies, and continuance of price subsidies for principal agricultural by-products such as grain, cotton, and oil-bearing crops; however, methods of subsidization should be reformed and rational subsidy standards set, some unjustifiable subsidies being phased out. (2) An accompaniment should be reform of the foreign trade system, revising and clarifying foreign trade subsidies to resolve abuses in controlling only the earning of foreign exchange and the use of foreign exchange without taking into account costs in either earning or using foreign exchange. Strict limitations should be set on the scale of import product subsidies, and the customs duties management system should be perfected to spur foreign trade enterprises to run their enterprises themselves, account independently, and be responsible for their own profits and losses. (3) Reform of "large common pot" subsidy methods, strictly differentiating between losses incurred for policy reasons and losses resulting from poor operation, adopting different kinds of subsidization methods including quota contracting, fixed quantity subsidies, and declining subsidies in gradual improvement of the subsidy mechanism. (4) Effective actions must be taken to reduce the range of subsidies gradually, to reduce the amount of subsidies, and to lower the percentage of government revenues taken up by government subsidies

to bring government subsidies down to around 25 percent of government revenue during the Eighth Five-Year Plan period. In addition, readjustment of the structure of industry, improvement of economic returns of enterprises, and actions to both increase production and practice economy, and to increase income and reduce expenses should be taken to create conditions for the complete resolution of the government subsidy problem during the next five years.

(E) Opening up of the money management field through the development of government credit. China's practice in development of a socialist commodity economy shows that timely and moderate development of government credit, using the transfer of government's ability to pay to realize a readjustment of the way in which national income is distributed and to regulate the allocation of social resources not only helps increase the state's macroeconomic control over the amount and direction of flow of social resources, and balanced movement of total supply and demand, but is also an effective way in which to ease fiscal difficulties and remedy fiscal deficits. Therefore, against a background of the socialist commodity economy and to meet needs in developing the planned commodity economy, timely and moderate development of government credit has become another component in fiscal reform. (1) The traditional money management view that no debt is best must be discarded, and a commodity economy money management view that carrying debt is necessary must be established. (2) Continuity in the operation of the economy, and the tendency for the economy to develop in stages must be taken into account for the establishment and selection at different time of fiscal credit policy goals and development strategies, matching fiscal and monetary policies to the government's financial circumstances, and market currency supply and demand, giving particular attention to the coordination and joint action of government and banks. (3) Establishment of a national debt management system and accelerating debt legislation to increase centralized management and macroeconomic control over the national debt, to regularize the assumption of national debt, and to root management in law. (4) While making use of the planning mechanism, the development and expansion of all forms of government credit markets should be accelerated to improve the fluidity and convertibility of bonds. (5) Improvement of the government credit system, increase in the kinds of government credit, and diversification of debt repayment methods. (6) In the scale and methods of development of government credit, all-around consideration must be given, advances made as strength permits. A proper scale of government debt must be set, and the system whereby bonds are issued for administrative reasons should be changed to issuance for economic reasons. The echelon-by-echelon allotment method should be changed. In particular, the method whereby residents are required to subscribe to purchases at a certain percentage of their wages must be abolished. (7) The way in which the budget is drawn up must be changed, funds set aside in the budgets for debt repayments, and debt fund budgets prepared as means of

making clear the intended use of debt revenues so as to ensure productivity and effectiveness from the use of debt revenues.

Editorial Calls for Enforcement of Tax Law

91CE0743A Beijing ZHONGGUO SHUIWU BAO in Chinese
1 Aug 91 p 17

[Editorial: "Uphold Taxation by Law"]

[Text] "Tax law" is by no means a new issue. There is no dispute that taxation must be ruled by law, and that we must adhere to the principle of having laws to follow, obeying the law, strictly enforcing the law, and punishing violation of tax laws. Some comrades nevertheless often have disagreements in new situations and in dealing with substantial issues. This is especially true at present. Rectification has achieved remarkable result, but adjustment of the economic structure is slow. Enterprises, particularly large- and medium-sized enterprises are faced with deeply imbedded problems such as economic inefficiency, need to greatly develop new advanced technology, and further encourage foreign investment and import advanced technology. Under these circumstances, some comrades believe that it is not necessary to stress tax laws. This belief is incorrect. Government values perpetuity. A government that enforces laws will become strong; one that neglects laws will become weak. Therefore, we must uphold the principle of taxation by law at all times.

First, taxation by law is necessary to ensure an orderly operation of the national macroeconomy. Taxes are an important lever to regulate and control the economy. The state's policy to develop planned commodity economy is embodied in its tax laws and decrees, in various policies and regulations derived from these laws, and in encouragement and restrictive measures. Upholding tax laws and enforcing unified taxation is the only way to ensure implementation of national economic policies, to ensure that enterprises have a healthy environment and equal opportunity for competition, and to steadily increase the efficiency in both microeconomy and macroeconomy. Otherwise, if we do not uphold the tax laws, implementation of the country's macroeconomic policy will be affected, the orderly operation of our economy will be impaired, enterprises will lack a fair and orderly environment, and improving economic efficiency will be empty words. In this way, no economic policy will make any difference.

Second, tax laws are needed to safeguard the interest of the state as a whole. Tax law is an important component of state law and represents the interest of the state as a whole which reflects the interest of all peoples in the state. "Laws must be carried out, and orders must be credible." Only by upholding tax laws, strictly enforcing unified taxes, and administering tax by regulations and limitations defined by law, will we be able to ensure the interest of the state as a whole, ensure increase in production, social progress, and raise living standards. If

we allow tax laws to be altered freely, let localities to do what they want, take actions on their own, or indiscriminately implement preferential taxes within the region, set up tax barriers for those outside the region, or compete for foreign investment by granting preferential conditions, the result will intensify regional and departmental blockades, destroy the socialist unified market, and harm our image in the world. In the long run, there will be no security for any regional and departmental interest.

Finally, tax laws are necessary to complete tax collection tasks and improve financial balance. Our financial situation has been quite severe in recent years. Taxes are an important source of income for the state, and once they are neglected, the consequence will be serious. This is not alarmist talk. "Of all useful things in the world, nothing is more useful than money." Financial receipts greatly affect the livelihood of the state and its people, and provide security for economic development, defense, cultural, educational, scientific research, and public welfare. Natural disasters were severe this year, fulfilling the income task will be more difficult, and financial pressure will be even greater. Under the circumstances, if we do not uphold tax laws, fail to collect every penny that is due, and tolerate tax evasion, then we will commit a serious mistake. Important responsibility should not cause us to feel as if we are "facing an abyss or stepping on a thin layer of ice." We cannot afford mistakes nor be lax on the important issues of upholding tax laws and fulfilling revenue tasks.

Of course, upholding tax laws, and unifying and centralizing taxes by no means deprives various local tax agencies of their initiative to solve urgent tax collection problems. Centralization is not meant to centralize to the end. Within legally defined power limits, various levels of tax agencies are vested with the power and the means to solve urgent tax collection problems under special circumstances in a timely manner. Under reasonable and necessary circumstances, local tax agencies may also choose to petition in accordance to the procedures defined by law to higher authorities and wait for permission from above. Strictly following the tax law and acting within legally defined power limits are important components in the principle of taxation by law.

It is not a taboo statement to point out that some adjustments need to be made in our tax laws and regulations based on the progress of economic structure reform and development of the country's macroeconomy. We must actively push for new tax legislation, revise existing tax laws and regulations that are no longer suitable to the present situation, speed up tax reform, and adapt tax laws to changes in new situations and time. However, the principle of taxation by law should apply to tax reform and perfection. In other words, all reform work must be done according to legal procedures defined by law. The State Administration of Taxation must petition the State Council and the Standing Committee of the People's Congress, and implement change upon

approval of the People's Congress after review. Localities must not act on their own. If each locality forms its own policy, not only will it not benefit and improve the tax system, it will instead upset the tax system.

In summary, taxation by law is one of our fundamental principles. We must uphold and not waver at any time or under any circumstances.

Analysis of Enterprise Reliance on Banks

91CE0746A Beijing JINGJI RIBAO in Chinese
3 Aug 91 p 3

[Article by Zhao Haikuan (6392 3189 1401): "An Analysis of Working Capital in the Hands of State-Owned Enterprises"]

[Text] Both the 10 Year Plan and the Eighth-Five-Year Plan stipulate the main goals for the country's future economic development. Realization of these goals will require raising a large amount of money, as well as planning for the use of these funds in accordance with the built-in proportional relationship between fixed assets and working capital. However, China's current system for providing working capital can scarcely meet the needs of economic development. Reforms must be made.

Main Reasons for the Shortage of Working Capital in the Hands of State-Owned Enterprises

The main problem in the supply of working capital in China today is that units planning construction projects invest most of the capital that they control in fixed assets without giving serious attention to working capital. The result is that once a newly built enterprise goes into production, it has to depend on bank loans for working capital. Furthermore, under China's socialist system, the production or the scale of operations of old enterprises generally increase each year, thereby necessitating a corresponding increase in working capital. However, at the present time, both the government and units in charge of enterprises have virtually halted payment of this additionally required working capital, and the enterprises themselves also rarely make withholdings from their profits for this purpose. What is more, when enterprises experience a loss of assets, they frequently take money from available working funds. As a result, both the relative amount and the absolute amount of working capital have declined in recent years. During the period 1979 through 1988, China's gross output value increased from 764.2 billion yuan to 2.9807 trillion yuan (figured in terms of prices during those years), but the working capital of state-owned enterprises within budget decreased from 131.3 billion yuan to 6.9 billion yuan. If inflation is taken into consideration, the actual value of working capital decreased nearly half.

Main Reasons for the Shortage of Working Capital in the Hands of State-Owned Enterprises

China's state-owned enterprises never did have very much working capital, but the basic reason for a smaller and smaller amount in recent years is everyone eating out of a large common pot without regard for their contribution to it. The system whereby banks centrally control enterprises' working capital has abetted the development of this situation.

First of all, the practice of eating out of a large common pot still exists in capital construction. The economic returns from a project once it has been built are not directly linked to the individual interests of those who decided to build it and those who organized its construction. Once a project has been built, the job of those who decided to build it and those who organized its construction is finished. They have rendered a service to the state or the local government. Whether the project has sufficient working capital, whether it can go into normal production, and what economic benefits it returns are matters to be addressed once the project has been built. When the decision is made to build a project, no unified planning is done that takes all factors into account. Moreover, in a large common pot situation, no one need worry about such matters. Since the state has expended a large amount of financial, material, and manpower resources to build a project, can the national banks fail to provide the loans needed for working capital? This has been the reality for many years: whenever a newly built enterprise has needed working capital, since no other method of solving the problem can be found, banks have always provided loans. This has confirmed those who have decided to build the project and those who have organized its construction in the use for capital construction of the funds that they control. They do not retain funds for use as working capital once the project has been completed and goes into operation.

Under China's economic system, large state construction projects are decided by state planning units, with government financial units providing the funds. Since a psychology of impatience for success exists in economic construction, sometimes the amount of construction planned exceeds the money available for it. This means that much money is needed, but the amount that the government can provide is small. The result is a shortage of funds. Thus, a large portion of the funds that might otherwise be used to expand reproduction are used for capital construction. When the project is completed and goes into production, either no working capital or very little working capital is allocated for it.

The problem of old enterprises having very little working capital available is even more closely linked to large common pot thinking. When a profit is earned, naturally bonuses have to be issued, and when losses occur, bonuses must also be issued. In addition, long-range development goals are not linked to the direct interests of staff members and workers. Staff members and workers in enterprises, and even some plant managers and factory

directors, do not concern themselves sufficiently with the enterprise's economic returns. They have a short-term outlook. In making withholdings from enterprise profits, there is too great a tilt toward the immediate interests of the individual; development of the enterprise, particularly long-range development, is accorded second billing. No effort is made to augment the amount of working capital at the enterprise's disposal. This is because although the withholding of more working capital from profits would reduce future bank loans and interest payments, thereby increasing the enterprise's profits, it would reduce the portion of current profits withheld for individual consumption.

In management, the current system whereby banks exercise centralized control over state-owned enterprises' working capital abets the decrease in working capital at the disposal of enterprises. On 5 May 1983, China put into effect once again the system whereby banks alone control enterprises' working capital. Inasmuch as all others basically halted the allocation of working capital, banks had no choice but to provide enterprises with the working capital they needed. Consequently, some people got the idea that unified control of working capital amounted to banks alone providing working capital to enterprises. Thus, units planning construction projects were encouraged to use for capital construction all of the funds they controlled without worrying about a lack of working capital once the project was finished and went into production. They firmly believed that "the banks could not refuse a loan when they saw a new enterprises without the money needed to go into production." Old enterprises also looked to bank loans for the additional working capital they needed, rarely considering that a decrease in their own funds created a waste of production capacity.

The banks' centralized control over enterprises' working capital also diluted the sense of responsibility of government financial units and units in control of enterprises about managing and supplying working capital for enterprises. Both government and units in charge were themselves rather short of funds, so now that banks centrally controlled enterprises' working capital, state-owned enterprises' needs for working capital were also pushed off on banks. Take the situation with the national treasury, for example. Up until the time that the banks centrally managed working capital for state-owned enterprises, the national treasury had to allocate substantial working capital to state-owned enterprises each year. In 1978, for example, it allocated 6.6 billion yuan, which was 6 percent of total government disbursements for the year and 2.3 percent of the total working capital quota for state-owned enterprises included in the budget. After 1983, the amount of working capital allocated plunged. In 1984, for example, the allocation was 1 billion yuan, which was 0.6 percent of total government disbursements for the year, and 0.25 percent of the total working capital quota for state-owned enterprises included in the budget. In 1986, the allocation was 990 million, which was 0.4 percent of total government disbursements for

the year, and 0.2 percent of the total working capital quota for state-owned enterprises included in the budget. The 1988 allocation was 964 million yuan, which was 0.35 percent of total government disbursements for the year, and 0.16 percent of the working capital quota for the year. Units in charge of enterprises largely supplied working capital to state-owned enterprises in the same way. This place an ever increasing burden on banks to supply funds.

Several Recommendations for Increasing Working Capital in the Hands of State-Owned Enterprises

1. In view of the above analysis, a fairly rapid increase in working capital in the hands of enterprises will require, in a fundamental sense, improvement of the enterprise contract management responsibility system in order to overcome enterprises' short-term behavior, thereby truly invigorating enterprises. The contracting period has to be lengthened somewhat, increased norms for working capital in the hands of enterprises made a part of contracts for the implementation of a fairly standard overall norm contracting system. The adherence to contract norms must be more closely linked to the interests of staff members, workers, and leaders in enterprises, staff members, workers, and leaders thereby becoming more interested in the working capital at the enterprise's disposal.

2. The state must explicitly require that when planning investment in capital construction, all units everywhere must simultaneously make arrangements for the working capital that will be needed once the project has been completed and goes into production. Should they fail to do so, the project will not be able to begin work. Those who decide on capital construction projects and those who organize their construction are to bear responsibility for whether the project is able to go into normal production following construction.

3. Share system enterprises may use the issuance of share certificates to raise money since this helps increase the amount of working capital in the hands of enterprises, reduces enterprises' debts and debt interest payments, and increases enterprises' competitiveness. In cases where too little money is at the disposal of enterprises, and when neither the treasury or departments in charge are able to allocate funds, or when the enterprise itself is similarly unable to withhold very much from profits within a short period of time, the enterprises may consider the issuance of share certificates as a means of augmenting the funds at their disposal, including the amount of working capital in their hands. The issuance of share certificates to raise money differs from bank loans in that the funds raised through the issuance of share certificates are the enterprises' own funds, and share dividends are a portion of enterprise profits. If dividends are paid in accordance with the regular method and the dividends are large, this shows that the enterprise is making a good profit, is being run well, and is booming. Bank loans, on the other hand are a debt for

the borrowing enterprise, and the interest paid on borrowed money is an enterprise expense that is to be recorded as an enterprise cost. Payment of a lot of interest on loans indicates that the enterprise's expense burden is heavy, the enterprise's financial circumstances are unsatisfactory, and its competitive position is weak.

4. It is not advisable for some large state-owned enterprises to use the share system. Instead they may issue bonds to raise some money in financial markets. Although the issuance of bonds to raise money differs from the issuance of share certificates to raise money, the money does not belong to the enterprise but rather is similar to a bank loan. It is part of the enterprise's debt burden, and interests payments on bonds are an enterprise expense. As bond interest increases, the enterprise's expenses mount. On the other hand, bond-issuing enterprises may use the money obtained for a fairly long period of time as they see fit, which helps give them more operating independence. However, the principal and interest on bonds must be repaid when due. Bonds lack elasticity. Bond-issuing enterprises cannot eat out of a large common pot with bond holders. For this reason, state-owned enterprises issue bonds to raise some of the money they need. This both adds a channel for sources of money to help overcome their shortage of funds, and it also gives powerful impetus for enterprises to improve their administration and management.

5. Overcoming the short-term behavior of enterprises and fostering enterprise interest in having working capital at their disposal requires a process. It is difficult to get results in a short period of time. For this reason, the state has no choice today but to require that a certain percentage be withheld from profits for working capital. The state has to use administrative methods to force enterprises to allocate working capital. Banks must exercise their supervisory role. If an enterprise does not retain a certain percentage for working capital, it should get no credit or less credit.

6. Efforts should be made to halt as quickly as possible the system whereby banks exercise centralized control over the working capital of state-owned enterprises, a change made to enterprises contracting for all the working capital that they need. In the circumstances that exist today in which it is usually difficult for state-owned enterprises to get all the working capital that they need, government financial units should be required to allocate a suitable amount of working capital each year to state-owned enterprises, and to bear a portion of the responsibility for controlling and supervising enterprises' rational use of funds. Insofar as possible, departments in charge of enterprises should also allocate a portion of the working capital that enterprises need, and they should improve supervision and control over the use of enterprises' working capital.

7. Banks must have greater independence about the issuance of loans. The working capital that state-owned enterprises regularly require will have to be provided mostly by the enterprises themselves. For the present, it

will have to come from enterprises own accumulations with the government and departments in charge allocating a portion. Going to banks for loans must be just one source of funds for enterprises. If the banks will not make a loan, enterprises should be able to obtain funds through other channels, and they should also be able to raise some funds in financial markets to carry on production. In this way, banks can make up their own minds about the issuance of loans on the basis of their own lending principles. They can provide more credit to enterprises whose products sell readily, whose costs are low, and whose profits are high. Enterprises whose products do not sell well, that have high costs, and make low profits, or even show losses should receive less credit or no credit at all to make fullest use of the role of credit in spurring and supervising enterprises to develop production, and to improve administration and management.

Strategy To Improve Enterprise Economic Efficiency

91CE0771A Beijing ZHONGGUO SHUIWU BAO
in Chinese 12 Aug 91 p 1

[Article by Yi Yan (1707 6056): "Turning Around Drooping Benefits Requires Changing Economic Strategy"]

[Text] At the end of April, we conducted an investigation on economic efficiency at the Panzhihua Iron and Steel Company, Panzhihua Brewery and Miyi Sugar Mill in Sichuan Province, and discovered that since 1990 output has fallen and efficiency has declined at these three enterprises. In the first quarter of 1991, production developed somewhat, and output value rose, but economic efficiency continued to decline. One important reason is that the enterprises lack the ability to react to change, and strategy for changes in product management is sluggish.

Before 1989, large- and medium-size state-owned enterprises practiced planned allocation for most product sales. For example, Panzhihua Steel practiced national planning on over 90 percent of its major products before 1988, and products could be allocated in a timely fashion according to national planned pricing. At the time, products that exceeded output plans and autonomous sales could be sold at prices higher than the national planned prices, thus economic efficiency was good.

Since rectification, serious changes occurred in the economic environment of the enterprises mentioned above, and the enterprises now face serious difficulties and challenges. One is that the state has reduced the scale of capital construction, the construction materials market is weak, demand for iron and steel products has dropped, and products are overstocked. Panzhihua Steel in the first quarter overstocked more than 200,000 tons of its major products, the price for allocated steel and iron dropped to 1600 yuan per ton. Two is that the consumer market has shown structural weakness. According to the national plan this year, commercial departments should

purchase 13,500 tons of granulated sugar from the Miyi Sugar Mill, but commercial departments could not carry it out, and now granulated sugar is overstocked by 11,000 tons. In the first quarter, funds used for finished products reached 30,480,000 yuan, an increase of 78.98 percent over the same period in 1990. In addition, tight funding, transportation difficulties, "triangular debt," arrears in payments of loans, etc., to a definite degree affected normal enterprise production and management. Great changes have occurred in the situation where enterprises relied on national mandatory plans and a overheated market to sell products and increase economic efficiency.

Faced with these changes, enterprises must strengthen their confidence to overcome adversity, actively study and adopt new management strategy, and welcome challenges. If one relies upon the government to solve difficulties, request tax reduction or exemption, stop loans, discount interest and other favorable policies, it will be very hard to solve problems. The brewery has a heavy burden of fixed property loans, and fierce market competition. In the face of such serious difficulties, some comrades hope the government will look after them with favorable financial and tax policies. Some comrades at this factory proposed an annual product tax exemption of 5,500,000 yuan, exemption from turning over to the Finance Ministry 2,100,000 yuan in special item revenue, exemption from paying new fixed funding for depreciation of 3,290,000 yuan, and asked the Finance Ministry to discount 1,950,000 yuan in interest, for a total of 12,750,000 yuan, and hoped these favorable policies would continue without change for five consecutive years. Under such vigorous conditions, this factory in the first quarter had a loss of about 950,000 yuan, an increase of 108.8 percent over the same period last year.

Just as many of Sichuan's large- and medium-sized enterprises were running into difficulty in product management strategy, many enterprises in coastal areas relied on their superior situation, swiftly revised their product mix, developed high value-added, high technology, and high profit goods in demand, and moved quickly into Sichuan markets. But many Sichuan enterprises have weak competitive strength, overstock products, and lower efficiency. Thus it is easy to understand why, in the passive situation of soft markets, inflated raw material prices, increased costs and tight funding, Sichuan enterprises showed a decline in efficiency. An important reason was the lack of ability to respond to change, sluggishness in adopting changes in product management strategy, which culminated in lack of competitive strength in products.

To successfully turnaround management strategy, on the one hand, adopt measures to deal with large- and medium-sized enterprises in Sichuan that have problems increasing output value, serious overstocked products, lower economic efficiency, and limit the production of poor selling, overstocked, high cost to price ratios goods to reduce enterprise losses. On the other hand, we must

strengthen leadership, have overall coordination, promote and protect enterprises to complete changes in product management.

Concerning tax collection, tax departments should develop extensive contacts, be well-informed and other advantages, give practical help to enterprises to strengthen management, urge enterprises to "turn inward," urge enterprises to use value engineering, seek better cost management and other progressive management techniques, improve financial cost accounting, solidly establish the idea of relying on technology to develop production, and accelerate product renewal. Strengthen the idea of "produce one generation, test manufacture one generation, plan one generation, and conceptualize one generation." In intense market competition, encourage enterprises to change production and management strategy. The composition, function, material quality and technical characteristics, etc. of products should have evident progress and improvement in one or more ways over the old. Or make new products that are creative, progressive, practical, efficient, and have wide-spread value to obtain a higher profit level.

FOREIGN TRADE, INVESTMENT

Report on Border Trade Between Guangxi, Vietnam

91CE0643A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese
No 23, 10 Jun 91 pp 31-32

[Article by Ko Hsiang-hsien (5514 6272 6343) and Wu Tung-feng (0702 2639 1496): "Information on the Border Trade Between China and Vietnam"]

[Text] When I visited the China-Vietnam border region last winter and this spring, I witnessed a flourishing border trade between these two peoples.

From Small-Scale Trade to Large Wholesale Commodity Trade

Dongxing Township in Fangcheng County lies on the northern bank of the Beilun River, separated by the river from the neighboring Vietnamese Mangla. It has traditionally been one of the important China-Vietnam trading posts. At the time of the self-defensive counter-attack against Vietnamese aggression, it had been necessary to remove the county seat from Dongxing to Fangcheng and the county was then accordingly renamed Fangcheng County. When the Vietnamese blew up the China-Vietnam friendship bridge, contacts between the two sides was cut off, the whole of Dongxing fell into ruin, its population dispersed, and the place became a scene of desolation. What we see today is a completely different picture: hundreds of boats ferry people and goods of the two countries back and forth across the Beilun River. The main streets and the embankment along the river have been opened up to Vietnam, and crowds of Vietnamese are all over the

place, having crossed the river to engage in trade. To attract Chinese from the border region to come over and trade in Vietnam, Vietnam too has set up a trading post next to the Gelong Bridge in Mangjie and built a new octagonal building of several thousand square meters to serve as market. Not only is its interior crowded with vendors' stalls, but the place around it is full of food stalls, general merchandise stalls, fish and meat vendors' stalls...their owners busily soliciting customers. We were informed that this scene of bustling activity had started early in 1989, and has not let up since then. Every month over ten thousand Vietnamese people enter China and over a thousand Chinese enter Vietnam to trade in their respective markets.

Shuikouguan in Longzhou County is another border trading post with busy trade activities. The territory on the east bank of the Shuikou River is part of China's Longzhou County, and the territory on its west bank belongs to the Vietnamese county of Guangfu. To facilitate trade, the people on both sides of the border have, as a joint venture, built a floating bridge from bamboo, downstream from the destroyed Shuikou Bridge, to enable mutual visits. Every day, at market time, two to three thousand people cross the bridge to trade products at the other side's market.

Nongyao, at the foot of Mount Jinji, must be considered the busiest of all the border trading posts. Mount Jinji is west of Friendship Pass, therefore also called Mount Youfu. The market place of Nongyao nestles in a valley west of Mount Jinji. Although white-painted signs on the slopes of the mountain still warn "Watch for Mines!" and "Attention: Minefield!" people from both sides of the border are bustling about in the trading district and vendors' stalls stretch out row upon row for several miles. On the mountain roads on the Chinese side, transport motorcars, trucks, and tractors move bumper to bumper, with the endless sounding of horns in one cacophony. On the Vietnamese side there is one dense mass of mountain people carrying goods on poles across their shoulders, in their hands, or on their backs. Women shopkeepers are busy checking their goods—most of the traders we saw in the market were women. Men were doing all sorts of "jiu bing" (a Vietnamese word, meaning "hard labor"). Commodities of the two countries were being assembled and traded here, and later shipped to their respective places in the interior.

The goods at these markets at the China-Vietnam borders are not only Chinese general merchandise for daily use, hardware, cloth, knitwear, clothing, but even small machinery items, such as electric generators, grinders, walking tractors, etc. They also not only comprise Vietnamese timber, coal, aluminium and copper manufactured products, livestock, poultry, marine products, mountain products, etc., but also Soviet-made watches, pressure cookers, chemical fertilizer, Japanese tape recorders, video recorders, Cuban sugar, Thailand slippers, cosmetics, Laotian rice, etc, even British-bred Pekingese dogs... It is really a market with goods from all corners of the world, ready to satisfy every demand.

Some of the Vietnamese from the border region told us that Chinese goods are very popular in Vietnam. We gained the same impression from what we saw at the border markets. On the Pan-Shan Highway that leads to the Nongyao market town, natives of the Chinese border region were transporting in a long line bicycles for sale in Vietnam; it was generally one man riding on one bicycle carrying a second bicycle, while those with greater skill would carry two bicycles. As we moved along in a motorcar, we counted over 200 bicycles that were being transported along the road. As soon as the bicycles arrived at the entrance of the Nongyao market, they were surrounded by crowds of Vietnamese and unceremoniously moved off.

At the Shuikou border market, we saw a truck loaded with "Wan Li" brand beer, produced in Guangxi, being driven into the market, and when we came out from our stroll through the market, the whole truck-load of beer had been sold out completely.

According to information from relevant places, the China-Vietnam border trade has only in recent times developed from small-scale trade to wholesale large-volume commodity trade, with an ever increasing value of transactions. Border trade transactions of the city of Pingxiang alone amount to daily as much as over 1 million yuan, so that the amount presently transacted during one month exceeds the amount that used to be transacted in the past during one year, while the bilateral trading by the people on both sides of the border has actually developed into a trade activity which involves participation by many regions in the two countries. Merchants from Langson, Hanoi, and even Saigon, from almost every province and city in Vietnam, are travelling to the China-Vietnam border region to bring or take delivery of goods. In China, with the exception of Tibet and Xinjiang, merchants from over 20 provinces, municipalities, and regions participate directly or indirectly in the border trade. Barter trade has now developed into trade with cash settlements. On our visit we also saw that each border market had its "open-air bank." "Open-air banks" refers to individual operators who exchange Chinese and Vietnamese currencies. Coming from China, one can exchange with them RMB for Vietnamese dong, and coming from Vietnam one may also exchange with them one's Vietnamese dong for RMB. The rate is a floating one. The RMB seems on the whole to show a rising tendency: In 1988 the rate of RMB to Vietnamese dong was about 1:300, by 1989 it had risen to 1:600 or 700, and is now about 1:1,300. It is said that in many areas of Vietnam the popularity of the RMB is only second to that of the U.S. dollar. Some county and city banks in Vietnam are opening savings accounts in RMB.

China's and Vietnam's Benefits From Border Trade

China-Vietnam border trade is conducted according to the most elementary principles of commodity economy,

namely by exchanges at equal value, each party providing what the other party needs, and obtaining what is needed by itself, each side being properly provided for.

As far as China is concerned, benefits from the border trade are primarily reaped by its border population. Incomes of the masses at the trading posts and in the areas into which the trading activities radiate have increased tremendously.

The greatest change, one might consider, has occurred in the streets at these mountain passes. We have visited these regions several times before, and it is only one year since our last visit, but we can hardly recognize the places. Most of what had merely been old covered arcades has been changed into three or four-story new buildings. Along the road, out of 105 households, 99 will have moved into new and much better houses.

Border trade has also stimulated economic development in China's border regions. After the spring festival of 1989, the population of Dongxing Township, which had been dispersed, has gradually returned to the town. Hotels, restaurants, dancing halls, beauty parlors, and every other kind of shops have one after the other opened for business. Where there had only been one guest house in 1979 in the entire town—frequently also “singing the ‘empty-city stratagem’” [name of a classical opera, here meaning so much as “being empty of customers”]—there are now over 100 guest houses and hotels, filled to bursting every evening, so that some travelers have to lodge with townspeople. From Dongxing to the county seat there had been three scheduled bus runs per day; now there are as many as several tens of trips. Several years ago, the people in Longzhou did not even know what a video recorder was, now on a stretch of road, not quite one Chinese mile long, in the center of the county seat there are seven or eight video projection establishments. The development of any kind of products brings about many new employment opportunities. Pingxiang alone, a city of only 80,000, has formerly had over 3,000 unemployed, and when a recruitment rescript was received from higher authority, people were fighting to get in on it. In 1987, when the rescript asked for the recruitment of seven temporary workers, over 2,000 persons applied. However, now when a rescript arrives from higher authority, hardly anybody wants to go.

It is a fact that the border trade with Vietnam helps to supply both sides with whatever they need. The products of China's light and textile industries, its food products, construction materials, and machinery and electrical products are commodities that are in short-supply in Vietnam and urgently needed. Some of the industrial raw and semifinished materials, as well as agricultural, sideline, native and special products imported from Vietnam supplement shortages in China and enrich the market.

The border trade has even many more benefits for the Vietnamese side. Much like having water immediately

available to quench an immediate thirst, this trade alleviates shortages of goods of daily consumption. China produces a wide range of goods for everyday consumption. Prices are cheap, and no foreign exchange is required. The Vietnamese masses welcome these Chinese products as they are being spread out right in front of Vietnamese doorsteps, convenient for selection and picking, to be freely accepted or rejected. The trade also alleviates the hardship caused by reduced aid from the Soviet Union and by the dramatic decline in Soviet-Vietnam trade.

Border trade brought along economic development in the northern border provinces of Vietnam and improvement in the living standards of the masses. This is most evident in Langson. In one article published by the Vietnamese authorities on 15 August 1990, it says: After opening up border trading posts, Langson has become the largest center for commodity exchanges with China. “After having been closed for ten years, the border area has suddenly become a fertile ground for traders. Many people have achieved prosperity within a short time, trade flourished, and profits of 100,000 dong (around 1 million RMB) can be made every day.” “Langson ... increased its fiscal revenue, and some peasants rapidly became rich.”

The bilateral trade between China and Vietnam in the border region has a very long tradition. A peaceful border region is beneficial for the peoples of both countries. The common people of Vietnam understand that very well.

China has all along advocated good-neighborliness and friendship. China hopes that the China-Vietnam border will forever be a peaceful border.

International Bank Syndicate Makes Loan to Company

HK0908025791 Hong Kong HONGKONG STANDARD (BUSINESS STANDARD) in English 9 Aug 91 p 1

[By Rosa Ocampo]

[Text] A syndication of 25 banks—including 11 from Japan—have granted China Resources Holdings a U.S.\$100 million (\$780 million) [Hong Kong dollars] loan, indicating that international banks are keen to resume business ties with China-backed companies.

The entire loan, scheduled for drawdown next week, would be used to strengthen the trading firm's funding base, said China Resources president Zhu Youlan at the loan signing ceremony yesterday.

The loan facility was 50 percent oversubscribed.

“Quality transactions and quality borrowers often attract considerable interest,” explained Garret Thunen, managing director of Bankers Trust Co, one of the six leading managers of the loan facility.

Mr Thunen said many banks were willing to lend to China-backed institutions. Of the 25 lenders, 11 were Japanese institutions, signalling their interest to resume lending to China.

Analysts have said many international banks have avoided granting loans to China-backed companies after the Tiananmen Square crackdown two years ago.

Bankers Trust vice president Henry Fei said the loan was to be paid over five years. Bankers Trust has agreed to financial derivatives which would reduce China Resources' interest payment to the six-month London inter-bank rate [Libor], minus 292 basis points.

Mr Fei explained that for China Resources to lower its interest rates, it has agreed "to write some options in return for a premium...so when you combine options with loans, it becomes a derivative product".

He said the 25 creditor banks would still receive LIBOR plus 75 basis points which was the normal spread for borrowers, but China Resources would be paying something less than that due to the options.

Mr Fei said the funding terms were a "good deal" for both the borrower and lenders. The general response from banks showed they were happy with the spread on the stated terms.

The \$780 million loan syndication was the third significant financing deal China Resources has participated with the Bankers Trust in the last two years.

Ms Zhu said the recovery of the Chinese economy, which has been undergoing huge modernisation, and the go-ahead for the airport project represented many new investment opportunities.

The loan facility was jointly arranged by six local and international banks led by Bankers Trust, Banque Nationale de Paris, Dai-ichi Kangyo Bank Ltd, Hang Seng Bank, Sanwa International Finance, and Westdeutsche Landesbank Girozentrale.

Nineteen other banks from Europe and Asia joined the syndicate, which included the following Japanese banks: Fuji Bank; Mitsubishi Trust and Banking Corp; Sumitomo Bank; Ashikaga Finance Hong Kong; Kyowa Saitama Finance; Nishi-Nippon Bank; Tokai Bank; Toyo Trust and Banking Co-Hong Kong branch; and Hiroshima Finance (Asia). Also in the syndication line-up were Amsterdam-Rotterdam Bank N V; National Westminster Bank; Banque Indosuez; Nanyang Commercial Bank; Banco Commerciale Italiana; local branches of Banco di Roma; Credito Italiano; NMB Postbank Groep NV; Dresdner Bank A G; and Societe Generale.

Customs Statistics Show Foreign Trade Growth

OW0808171091 Beijing XINHUA in English
1328 GMT 8 Aug 91

[Text] Beijing, August 8 (XINHUA)—Statistics released by the Chinese Customs today show that China's import and export value in July topped 11.6 billion U.S. dollars, a 22.5 percent increase over last year's same period.

This includes 6.38 billion U.S. dollars-worth of exports and 5.28 billion U.S. dollars-worth of imports, 24 percent and 20 percent increases respectively over last year's same period.

During the January-July period, China's export value totalled 30.12 billion U.S. dollars, and its import value, 23.13 billion U.S. dollars, 18.7 percent and 16.8 percent increases over last year's same period, respectively.

ECONOMIC ZONES

Mayor on Shenzhen's Reform, Development

91CE0709A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 29, 22 Jul 91
pp 17-18

[By Hu Guohua (5170 0948 5478): "Mayor Zheng Liangyu Discusses Shenzhen Reform and Development"]

[Text] Shenzhen, the earliest special zone established in China, has been in existence for 10 years now. From a small, backward border town, it has become a thriving, modern city marked by a forest of high-rise buildings. To find out about Shenzhen's present economic growth and its future development, reporters recently interviewed its mayor, Zheng Liangyu [6774 5328 3768]. By way of introduction, he noted that experience has shown that, being the right size for a special zone, Shenzhen has had successful development. Overall it encompasses 327.5 square kilometers, an area as large as Shanghai Municipality. At present, more than 60 square kilometers are under development, another more than 100 square kilometers are awaiting development, and there are other coastal and mountainous areas which could be expanded for tourism.

Zheng Liangyu thinks that the reason for Shenzhen's success lies in its having taken advantage of the central government's special policies and effective measures and in having taken the path of rapid economic growth under the socialist system.

The Shenzhen Special Zone's 10 years of achievement has forced a number of people in the world to look at socialism in China with new eyes. Some see the trouble that reform in Soviet Union and East Europe met with and categorically declare that there is no hope for socialism and that it has now been defeated. However, the Shenzhen Special Zone's 10 years of achievement tells the ordinary person that socialism has by no means

reached the end of the road and is definitely not without hope. The crux of the issue is how we consider socialism. He thinks that, in the past, it was unrealistic and subjective for us to consider an unfinished socialist economy to be a genuine socialist economy. Reform and opening up to the outside world have now taught us that building socialism must be accomplished according to the objective laws of socialism.

Since last year, a number of Soviet groups have come to Shenzhen to learn what has been done here. A great many capitalist countries have also recognized Shenzhen's rapid and successful growth. I tell visitors that the building of Shenzhen represents socialism with Chinese characteristics. First, Shenzhen's pattern of growth combines various economic elements, the main feature of which is public ownership but which includes foreign capital and private enterprise. Second, the emphasis is on distribution according to work in combination with diversified distribution. Third, the economic operating mechanisms are a combination of plan regulation with market regulation. However, it is mainly by means of market regulation that the state ensures macroeconomic control. Fourth, at the same time that Shenzhen has been achieving great success in building its material civilization, we have been paying extremely close attention to building a socialist spiritual civilization. While developing a commodity economy, we have also not neglected to strengthen the cultivation of socialist morality.

Zheng Liangyu told reporters that Shenzhen's rapid 10-year economic growth has been unprecedented nationwide. For 10 years, the city's GNP has increased each year an average of 76 percent, total industrial output value, 69 percent, fiscal revenues, 65 percent, and foreign exchange income, 72 percent. Such a high rate of growth has been maintained for 10 years straight that comment from all quarters has declared it a miracle and described Shenzhen as "an overnight city." People's living standards in Shenzhen have also improved significantly, and their housing is quite superior. What is more important is that, during these years, Shenzhen has provided valuable experience to the whole country on reform and opening up to the outside world. It has had the role of a military advance patrol.

Reform of the pricing system is at the core of China's economic structural reform. It can be said that Shenzhen has successfully led the charge on price reform. At present, 97 percent of commodity prices on the Shenzhen market belong to the category of guided prices. Directed prices only account for 3 percent. Shenzhen has now given free rein to a whole gamut of goods and materials important to the national welfare and people's livelihood such as coal, petroleum, and steel products. This has resolved a number of problems and cut down on the number of people wanting to see the mayor as well. Freeing up prices is beneficial to fair competition between enterprises and to development of a market economy. For many years now, market prices have been fairly stable. There have not been major fluctuations. At present, Shenzhen's market operating mechanisms are

constantly being perfected. A large number of enterprise operating activities, especially supply and marketing, rely on market guidance.

He said that, in our combining a planned economy with a market economy, it is market regulation that constitutes the largest part. Planning is mainly represented by the state's macroeconomic guidance, for example, controlling the scale of construction, the amount of credit, the size of currency reserves, collective purchasing power, and even citywide development programs. The balance between overall supply and overall demand is also regulated and controlled by macroeconomic planning. Our economic structural reform has consisted mainly in strengthening market regulation. Our adherence to the laws of a market economy has brought continual, steady, and rapid growth to Shenzhen's economy and kept it dynamic from beginning to end. During improvement and rectification, when there was a nationwide market slump, Shenzhen's market essentially remained normal and its economy maintained a favorable growth rate. This is why, with reform, Shenzhen has been able to shape the growth of its market economy and gradually perfect its market mechanisms. This has improved the vitality of enterprises and raised their production level, enabling them to begin to penetrate international markets with their products. In 1989, when the rate of increase for industrial output value was declining throughout the country, Shenzhen's increased 38.7 percent, overall reaching 11.6 billion yuan. In 1990, overall industrial output value increased to more than 16 billion yuan. In addition, products were basically sold out, without any large overstocked inventories. In 1990, foreign exchange earned from exports came to \$2.97 billion.

Zheng Liangyu told reporters that Shenzhen had achieved another important success in its reforms. It has made somewhat of a breakthrough in its labor employment system in which workers are hired under a contract system and enterprise cadres are appointed. Reform of the employment system has greatly increased the mobility of qualified personnel and made the best use of people's talents. For the past 10 years, Shenzhen has attracted large numbers of qualified personnel from all over the country who have made important contributions to building the special zone. Reform of the employment system has also set in motion reform of employee-employer relations and had the effect of heightening employee and cadre enthusiasm. In addition to the reforms described thus far, Shenzhen over the years has also reformed many other things; for example, its reform of the fiscal system and its establishing a system to compensate for land use. These reforms have attracted the whole country's attention, although some of them are still at the exploratory stage.

The reporters asked Zheng Liangyu if there was any new thinking with respect Shenzhen's reforms and if there were plans to explore any new avenues. He readily admitted that there was some thought along these lines. This year Shenzhen will principally be involved in two

reforms. First, there is the social insurance system, which we call a comprehensive reform. It is estimated that we will be trying it out during the last half of this year. It is characterized by joint responsibility on the part of the state, the enterprise, and the individual for social insurance. No longer will only a single entity be responsible. The purpose is to use an insurance fund to resolve three important problems—providing for the aged, the sick and injured, and for housing. Insurance benefits will be composed of three parts, with the enterprise taking one, the government helping with one, and the individual paying one. How the enterprise will be responsible for its part will be given further study. Individuals will pay for insurance benefits according to their wage levels. Those with higher incomes should pay more.

Another important task of Shenzhen's reforms this year is to strengthen and perfect laws and regulations governing the trading of securities in order to guarantee that procedures are sound and normal. In 1991 we are mainly taking on four aspects: first, establishing basic laws; second, setting up a stock exchange; third, suppressing off-board black market trading; and fourth, reorganizing employees working with securities. In recent years, the trading of securities in Shenzhen has been growing rapidly. However, operating mechanisms have yet to be perfected and there are still a number of unstable factors awaiting our further exploration and perfection. Once the various laws have been gradually established, there will be less and less administrative intervention.

Reform of the enterprise shareholding system will still be the focus of enterprise reform. The shareholding system is the system with a future. Through holding companies and the use of participating stock, we should be able to optimize our arrangements. By means of holding companies and the use of participating stock, we can fully allow enterprises which are strong and efficient to improve the production, operations, and management of those enterprises which lack efficiency. This should provide an effective remedy for quite a few enterprises on the brink of bankruptcy.

At this point, reporters asked which aspects of Shenzhen's many explorations over the years with respect to reform and opening up to the outside world did he consider a success and worthy of being used as a point of reference by other regions in the country.

Zheng Liangyu replied that Shenzhen had over the years, through its constant explorations, provided a great deal of experience to the country on opening up to the outside world and reform. First, it made some useful and successful explorations into how we should build an export-oriented economy and how we should enter the international market. Shenzhen now has a large number of export-oriented enterprises. It has the highest per capita volume of foreign exchange earned in the country, and the city itself stands second in the country for foreign exchange earned (Shanghai is first). However, at present, a large portion of Shenzhen's exports are to Hong Kong, and we have not been doing much "fishing abroad." This

is disappointing. We realize that, if we are to compete on the international market, quality of goods is extremely important. Matsushita color television sets are worth from \$350 to \$400, whereas fairly good ones of ours only sell for a little more than \$250, a difference of almost \$200. Besides quality, creating a brand name is also extremely important. Shenzhen's Zhonghua Bicycle Company has not done badly in this regard. They now receive orders from around the world. They produce a number of brand-name bikes and are fairly efficient.

Zheng Liangyu told reporters that Shenzhen has also been highly successful in building a spiritual civilization during these years of reform and opening up to the outside world and while developing a socialist commodity economy. The situation now is rather good. In the process of development, enterprises are beginning to focus on culture and pay attention to improving the cultural level and morality of employees and cadres. For example, with respect to Shenzhen's cultural scene, the songs they sing at the Gala OK Hall are all clean. They do not contain any muddled-up lyrics. Shenzhen recently even made some television movies based on the theme of reform and opening up the outside world. They were well received domestically and considered quite good.

Finally, Zheng Liangyu even talked about the goals of Shenzhen's future struggles. He said that, for the next 10 years, we are setting forth the following goals: First, by the year 2000, to reach the level of a medium-size developing country, with a per capita GNP of \$3,000. I have worked it out. This goal can be realized. Second, to become the pilot region for the success of China's reform and opening to the outside world. We will continue to make further explorations into the shareholding system, social insurance, and in bonded areas, striving to increase our experience. Third, to become the country's major base for earning foreign exchange. Shenzhen's industrial structure will give prominence to high-tech exports. At present, Shenzhen's high-tech industry only accounts for 10 percent of its total industrial output value. By the year 2000, we will try to make it 30 percent. Fourth, to become a fairly well developed region with respect to socialist spiritual civilization and strive for a number of high-quality spiritual products. These four goals, in effect, represent the content of the two civilizations.

AGRICULTURE

Liu Dongping Discusses Wholesale Grain Markets

91CE0641A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 25,
24 Jun 91 p 35

[Article by Tung Hua (2639 5478) and Chu Wang-ch'en (2612 3769 6591): "General Manager of the Chinese Grain Trading Corporation Liu Dongping Talks About Chinese Wholesale Grain Markets"]

[Text] Recently reporters from this publication made a special trip to Beijing to interview General Manager of the Chinese Grain Trading Corporation and high-ranking economist Liu Dongping [0491 2639 1627] and ask him to give his own views on such things as the present policy to open wholesale grain markets on the mainland and subsequent intentions. This longtime grain expert very eagerly answered the reporters' questions.

Question: Why does the Chinese mainland want to open wholesale grain markets?

Answer: Market development is an essential task in the reform of China's economic system. In ten years of reform and development, the volume of China's grain market operations has grown rapidly. With the intensification of reform, the volume of grain market operations will further expand, but the construction of grain markets has fallen far behind the development of grain market operations. Most of the several billion to 100 billion grains circulated are dispersed in disorderly and unstable channels and irregular locations. Grain market development lacks the support of mainstay markets, weakening the regulatory function of the market mechanism. The experiment with wholesale grain markets conforms with the principle of combining market regulation with the planned economy and sets up an important experiment focused on conducting large grain trading markets conforming in an orderly way with China's national characteristics.

Question: What is the situation with the opening of wholesale grain markets on the mainland?

Answer: Since China opened the first national-level comprehensive wholesale grain market dealing mainly in wheat at Zhengzhou, Henan, last 12 October, we have opened five provincial-level wholesale grain markets in succession. They are wholesale (husked) rice markets at Wuhu, Anhui; Jiujiang, Jiangxi; and Wuhan, Hubei; a wholesale soybean market at Harbin, Heilongjiang; and a wholesale corn market at Changchun, Jilin. Wholesale (husked) rice, peanut, and rapeseed markets also are now actively being planned in Hunan, Shandong, and Sichuan. The wholesale grain markets already in operation exhibit three rather obvious characteristics. The first is that they all are nonprofit service institutions, and well-organized and well-led, standardized trading places. Secondly, they all are primarily spot wholesale traders, and, at the same time, they conduct six months to one year long-term forward contract exchanges and effective contract compensated legal transfers. In addition, these primarily wholesale spot grain markets all apply some futures market trading principles, such as markets restricting their members, i.e. only qualified wholesale grain merchants and production enterprises, and processing enterprises that use grain as a raw material can apply for membership and obtain trading credentials. Buyers and sellers both pay a cash deposit and all contracts are standardized.

Although wholesale grain markets apply some futures market trading principles, they are quite different from futures markets, including agricultural trading markets, [in that]: 1) The vast majority of futures market contracts are speculator trading, but the wholesale grain markets are mainly spot markets permitting long-term forward contract trading and virtually all are complete transactions of the actual grains. 2) The core of futures markets is guaranteed worth and cash deposits are augmented with fluctuations in the actual price, but wholesale grain markets presently stipulate the collection of cash deposits of only 5-10 percent. When they first opened, some still waived the cash deposits and did not have guaranteed worth. The only limitation was the motivation of honoring the agreement. 3) Most related commodities, such as chemical fertilizer related to grain production are on the futures market and can use slack season interim guaranteed worth. The wholesale grain markets are limited to only a few major grains and do not overlap industries. 4) Futures markets have a 140 year history in the United States and several decades in Japan and Hong Kong. They have a complete set of legislation and external conditions are good. The wholesale grain markets have just begun in China. They still do not have legislation, they are only experimental. The differences between the wholesale grain markets and the agricultural trading markets are even more self-evident. Agricultural trading markets are product adjustments, balancing surplus with deficiencies between grain producers, mainly of grain produced by the peasants themselves, with the grain in one hand and the money in the other. The volume is very small and the spending of buyer and seller are free and without standards.

Question: What functions will the wholesale grain markets perform after they go into operation?

Answer: First, after the wholesale grain markets go into operation, we want to make them strong points in national and local government macrocontrols on grains and stopgap grain market administrators. Second, national intentions to control grain market prices must be realized and reflected through wholesale grain markets. When grain prices are too high, we must sell in great quantity on the wholesale grain market to drive the price down. When grain prices are too low, we must implement protective prices on it [the wholesale grain market]. Third, publicizing the transactional price formed in the wholesale grain market gives grain producers information, guides agricultural production, and allows grain consumers to understand grain pricing information. Fourth, from the experimental operation of wholesale grain markets, we will gradually transit to multi-level grain futures markets with different levels of administration, a grain market system of wholesale grain markets and rural grain trading markets, and an information network.

Question: What problems has the experimental operation of wholesale grain markets encountered?

Answer: There is too much administrative interference, making it difficult for the wholesale market mechanism to function. Some localities, in order to augment market controls, stipulate that grain from their province cannot cross the border and put too many controls on prices, so that the wholesale market cannot form prices through open, fair competition. External relations are limited. When buyers and sellers make a deal in the wholesale market, it involves many aspects, such as problems with funds and problems with transportation, that it is very difficult for the wholesale market itself to resolve. Disputes are necessarily quite numerous and the laws are not perfected. So, there is no law to rely on in disputes over the operation of the market. Reform is incomplete.

Question: How do you think that the wholesale grain market could be best run?

Answer: We cannot indiscriminately imitate foreign ways. If we are to establish large grain trading markets with Chinese characteristics, it must be done in rapid and measured steps. I think that the first step should be to devise a method for even more traders to trade by improving the service function and channeling dispersed, unregulated trading into centralized orderly trading markets, distinguished as commodity fairs, adjustment fairs, and exhibition and sales fairs. Functional emphasis would increase the attraction and the representativeness of the markets. But, if we want to increase the attraction of the markets, it is not enough to rely only on the wholehearted service of the market. We also must rely on the tilt of government policy. The government's policy tilt toward wholesale grain markets is not only displayed in reducing taxes and conceding profits or fiscal support. It is even more important to create a relaxed atmosphere advantageous to the development of wholesale grain markets. Presently, transportation and monetary support are especially urgent. The second step is the need for market activities to be further standardized after the market has undergone a period of operation, improving the standardization of contracts, members of the associations governing themselves, reducing government administrative interference, expanding management work and contract transfer work, and enhancing connections with international markets to lay a foundation for developing a futures market. The third step is the final stage for the wholesale grain markets—the transition to futures markets, truly assuming responsibility for dispersing risks and transferring risks.

For sound development in this direction, the government has adopted a positive, safe policy toward opening wholesale grain markets. What is called positive is that whenever local conditions are ripe, they can petition for experimental operation. What is safe is that appropriate controls are required, because in the initial period, it is not advisable to further expand. Opening a business is comparatively easy. Consolidating and developing it are

comparatively difficult. We need now to pay close attention to perfecting, consolidating, and improving. We plan in the next six months to hold a meeting to exchange experience and review good courses of action and problems encountered in opening grain markets.

Measures To Ensure Rational Sugar Prices

91CE0770A Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 7, 15 Jul 91 pp 28, 7

[Article by Sun Guangming (1327 1639 2494) and Li Ling (2621 1545): "Reasons Why Sugar Prices Have Not Reached Their Proper Level and Measures To Counter This"]

[Text]

I.

At the end of 1990, the state in light of sugar production development and market supply trends, adjusted sugar crop prices and the buying and selling price for sugar. Since the sugar price was adjusted, the price has not reached its proper level, and the price adjustment has not yet achieved its goal of generating a market and invigorating the economy. The reasons the price has not reached its proper level are very complex. We feel that in addition to experiencing the soft "environmental" effect of the overall market, the following are the other primary factors:

A. Supplies are abundant, and supply is greater than demand. Recently, to ensure sugar production, the state has "tilted" towards sugarcane growers, adopting a number of preferential policies, thus fully arousing the enthusiasm of sugarcane growers for production. According to relevant statistics, the annual sugar production for 1990 in the whole country was 5.2 million tons, an increase of 300,000 tons over 1989. Including sugar imports, the gross supply was 6.15 million tons. In 1991, the situation in sugar-producing regions was even better, and estimated sugar production could be the highest ever, with gross production reaching 7.2 million tons. The country only requires about 6 million tons of sugar annually. Xiangfan City requires 25,000 tons annually, but the amount purchased through various channels could reach 40,000 tons. The ample supplies affect the price, which is far lower than the fixed state price.

B. Policy errors. When the state adjusted sugar prices, it gave too much consideration to the factor of sugar production costs, and neglected the limits of the law of supply and demand, and the market situation. This is also one major reason that the price has not reached a stable position. For example, at markets in Xiangfan City, Hubei Province before the adjustment, the price was 1.23 yuan per 500 grams. After the adjustment, the price rose to 1.80 yuan, a 46 percent increase. Under a situation of a soft market, and reduced social purchasing power, consumers undoubtedly found it difficult to accept the high range of price increases, and demand progressively decreased.

C. The "two-track system" for prices gave rise to deficits. Due to abundant supplies and rising output, after the adjustment of sugar prices, the abnormal phenomenon emerged whereby the planned price of sugar was higher than the nonplan price. The state-set production region planned allocation price was only 2400 yuan (the lowest being 2300 yuan), 230 yuan lower than the fixed state price. The low planned price meant that profit could be made, and this attracted many enterprises and individually owned commercial households, who came directly to the production areas to purchase nonplan sugar, and sold it at a low price on the market, threatening the normal business situation of state commercial wholesale enterprises. Xiangfan City now has more than 30 business units and individual households directly purchasing sugar from producing regions. In the first four months of 1991 alone, the amount of nonplan sugar coming into Xiangfan City was 12,000 tons, close to half the city's annual needs.

II.

The difficulty in getting the price to find its proper level gives rise to difficulties in enterprise management, making it difficult to develop state-run commercial channels, the efficiency of sugar wholesale companies declines, and losses are serious. To ensure fulfillment of allocation tasks in the state plan, commercial companies have no option but to purchase in-plan sugar, but its price (with a per ton allocation price of 2630 yuan) is also higher than the plan supply price (2500 yuan per ton) and they are unable to sell it. All of the 7300 tons of in-plan sugar transferred to the Xiangfan City Sugar Company in the first four months of the year is piled up in warehouses, putting tremendous pressure on funds, increasing interest, and storage expenses, which seriously affected enterprise economic efficiency. In the first four months of 1990 this company lost 387,000 yuan.

Another aspect of enterprise management difficulties is manifested in difficulties in fulfilling the state allocation plan. Because a difference has emerged in the in-plan and nonplan price of sugarcane, each local sugar company, after allocating according to the plan could not sell the sugar, and does not dare to transfer in or transfer on schedule, and the sugar business does not have the slightest bit of enthusiasm.

The problems and difficulties facing the sugar market also attract the attention of various levels of government. To solve the problems described above, we believe that it is necessary to normalize the circulation of sugar, arouse the enthusiasm of enterprise management, and adopt the following measures to ensure that the price achieves its proper level:

First, gradually reorganize the circulation channels, implement centralized management by specialized departments, and develop the primary channelling roles of state-owned businesses. Sugar is a major commodity

related to the national economy and the people's livelihood, and those with allocation responsibilities (including departments outside the plan) should let the state-owned business companies be in charge, and other units, enterprises and individuals should not interfere in wholesale. Relevant departments should strictly investigate illegal acts which disrupt the market such as selling dear, speculating, and illegally seeking profit.

Second, strengthen supervision and inspection of market prices. All units and individual households which produce and manage sugar must strictly carry out pricing in accordance with state regulations. Price inspection departments must treat activity which disrupts the lowering of prices a primary target of their inspections, to ensure that the interests of the state, collectives and individuals are not infringed.

Third, recheck and reappraise the sugar purchasing and selling prices. The State Council has clearly transmitted cables requiring that each locale strictly implement state-set prices. But the real results are far from ideal, because the price is too high. For this reason, relevant departments should reexamine their consideration of production costs, and come up with a more rational price acceptable to the market.

Fourth, change methods for setting the price through circulation links. At present, many places throughout the country are trying a price setting method for sugar circulation links called "smooth increase." From experience, there are defects, and particularly apparent is the excessively large price differences among regions, which are not beneficial to business management and sugar circulation. We suggest that in setting prices we should restore the "reciprocal discount" method used for many years, whereby through extended allocation of discounts, differences in prices between locales are reduced, and price differences between neighboring locales are maintained at a more rational level.

Discussion of Grain, Oil Products Price Revision

91CE0766A Beijing JIAGE LILUN YU SHIJIAN
[PRICE: THEORY AND PRACTICE] in Chinese No 6,
1 Jun 91 pp 16-18

[Article by Liang Tao (4731 3447) and Zhang Shusen (1728 2885 2773): "Major Breakthrough in Grain, Oil Price Reform"]

[Excerpts] On 1 May the plan to adjust the unified selling price for grain and oil was implemented. This is a major breakthrough after more than twenty years of grain and oil price reform, and will play an important part in gradually systematizing grain and oil prices, reducing the burden on the treasury, invigorating the circulation of grains and oil, and promoting economical grain use.

I. Market Trends Before and After the Adjustment in the Unified Selling Price for Grain and Oil

This grain and oil price adjustment was first disseminated internally on 22 April and was officially implemented on 1 May. From when it was first disseminated to early May, the grain and oil market and the entire market went from fluctuation to stability.

1. Beginning on 22 April, it was disseminated to the vast number of cadres and staff in various localities one after the other. The public in localities throughout the nation, mainly in the three days from 22 - 24 April, lined up to purchase grain and oil.

2. Because of the large rise in the price of edible oil, people mainly purchased edible oil. The people were worried that inflation in the negotiated price of oil might follow and there were widespread large-scale purchases of negotiated price oil. In some places a few stores temporarily sold out parity or negotiated price oil.

3. On 23 and 24 April, the types of commodities that the people concentrated on purchasing expanded somewhat, and in some areas the sales volume of such products as pork, soap, table salt, soy sauce, monosodium glutamate, and fine dried noodles increased.

4. In quite a few local markets, the prices of grains and oils and their products, and eggs and pork underwent a period of some inflation. In some places in Hebei, the market price of rice rose 1 to 2 jiao and the price of eggs rose 2 to 3 jiao. In Beijing the market prices of bean products rose 2 jiao and pork prices went up 3 to 5 jiao.

5. After the outline of the grain and oil price adjustment plan and its dissemination were gradually transmitted, the actual grain and oil price rises were much less than the adjustment that the people had expected or than had been rumored. Beginning 25 April, markets throughout the nation gradually returned to normal. Free market grain and oil and egg prices that had fluctuated a few days earlier also began to go back down, and the prices of the principal vegetable and pork byproducts stabilized. On 1 May, various places implemented new prices for grain and oil and their products on schedule, and grain and oil markets and total markets throughout the country generally restabilized.

Overall, the implementation of this grain and oil price adjustment went rather smoothly. Despite the fact that people lined up to purchase grain and oil, generally speaking, the people were calm and purchases were normal and orderly. There were no abnormal situations, which shows that the people can understand and support this reform. [passage omitted.]

III. Achievements in Adjusting the Unified Selling Price of Grain and Oil

(1) Progress was made in grain and oil price reform. For a number of years, the unified selling price of grain and oil has been a "forbidden area" of price reform. The grain ration price enacted in the mid-1960's has been

maintained up to now. This price adjustment resolved the problem of the purchase price of edible oil being more than the selling price and reduced the amount of the discrepancy between the purchase price and the selling price of grains, realizing an historic breakthrough and giving impetus to general price reform. It gives practical proof that if the price adjustment plan is reasonable and accompanied with all the necessary measures, the proper time is selected to implement it, and it is clearly explained to the general public, price reforms also can be successfully accomplished in some sensitive commodities.

Distortions in the purchase and sale prices of grain and oil have been eased and the first steps have been taken leading to mass consumption and reduced waste.

(2) Grain and oil price reform reduces subsidies from central and local treasuries. Distortions in grain and oil purchase and sale prices creates a heavy burden of excessive subsidies for treasuries. The amount of grain and oil subsidies is great, more than the national treasury can support. Adjustment of the unified selling price for grain and oil reduces the burden on the treasury and has a positive effect on economic development. At the same time, it creates the economic conditions for gradually raising the national purchase order price for grain and oil.

(3) Grain and oil price reform has a good effect on total wage reform. The level of real wage income is closely related to price levels. An increase in wage income should be adapted to the price index to ensure that the actual living standards of the general public do not go down. Previous Chinese price reforms were only loosely related to wage reforms, and their actual effectiveness was less than ideal. This time, staff wages were increased at the same time that grain and oil prices were raised. This also is an improvement.

IV. Some Issues Worth Considering

Although this grain and oil price reform was smoothly implemented, there are some issues that deserve consideration.

(1) *The issue of residents' rationed grain and oil stocks.*

This adjustment in the unified price of grain and oil was also followed by an adjustment in the residents' purchase price for grain and oil stocks. Because quite a few localities have adopted measures to limit purchases to that month's grain and oil, there was no way to purchase the residents' grain and oil stocks. The people have quite a few opinions about this. To stabilize the grain and oil markets and lessen popular dissatisfaction, some places provided some measures in addition to the unified arrangements. For example, in some areas, in addition to permitting residents to purchase three or four months' grain rations, they also permit each household to purchase 150 jin of grain stocks at pre-adjustment prices; some areas have stipulated that residents are permitted to purchase two years' grain and oil stocks; and the grain

departments in some areas purchase residents' grain and oil stocks at less than parity or at a negotiated price. Because local policies are not unified, especially where there are disparities among the policies of neighboring areas, it can easily cause chaos. We believe that the issue of residents' grain and oil stocks is rather sensitive. Throughout the nation there are several tens of billions of jin of grain and oil stocks. If this issue is not properly handled, it will seriously disrupt grain enterprises. So, the national government should adopt measures and a unified policy on the major issue of residents' on hand grain and oil stocks which affects the stability of the grain and oil markets, and correct various "local policies" that can hinder the stability of national grain and oil markets.

(2) The issue of strictly controlling chain reactions.

Grain and oil are necessary for the people's livelihood and changes in their prices can cause the prices of several commodities to go up. The general public will only be able to accept it if the amount of the price rise for products related to grains and oils coincides with the amount of price rises for grain and oil themselves. Presently the general public is very concerned about overall inflation. Since the fourth quarter of last year, the national government has raised, one after the other, prices of such things as coal for civilian use, textiles, tickets for public transportation, post and telegraph fees, and gas. Public sentiment has begun to change. Their appraisal of price trends has changed from "tending toward stability" to "tending toward instability," and in some places there has been panic buying. Even though this adjustment in grain and oil prices has been rather stable, the growing mentality among some of the public that saving money is not as good as saving things should not be overlooked. It appears that, for a period of time, we should enact few or no reform measures that increase people's expenses. As regards prices, we should set up prices of grain and oil and their products strictly according to the principles set out in the grain and oil price adjustment plan, firmly curb piggyback inflation, and strictly control chain reactions to guard against a new wave of panic buying.

(3) The issue of ensuring that key price reform measures are smoothly implemented.

The smooth implementation of this adjustment in grain and oil prices is very much related to the national government's strict control of the implementation of other price increases and reform measures. If this adjustment in grain and oil prices can be said to have had any affect, it would only be in the fact that before the grain and oil price adjustments were officially disseminated, bank interest was lowered, causing some public dissatisfaction. We propose that in future reforms we further unify our plan, taking all factors into consideration, and ensure concentration. We should do our best to avoid implementing at the same time or within a short period of time any reform measures that would increase the people's expenses or decrease their income to avoid

exceeding public tolerance and causing unnecessary social turmoil and market fluctuations.

(4) The issue of improved dissemination of prices.

From what was said above it can be seen that market fluctuations before the grain and oil price adjustments were very much related to the fact that the general public was unclear on the scope and the extent of price adjustments. Because there was a "time gap" between internal dissemination and public dissemination, a few people used the opportunity to first get state secrets, to take advantage of internal and external collusion, and to secretly obtain parity grain and oil to conduct illegal and criminal activities. This requires further improvement in the dissemination of price reforms, strict secrecy when price adjustments are being studied and planned, the quickest dissemination possible to the vast number of cadres and the general public when it is implemented, shortening the "time gap" between internal dissemination and public dissemination to the greatest extent possible, and keeping market fluctuations to a minimum.

Hebei, Shanxi Summer Grain Output

91CE0768A Beijing JINGJI RIBAO in Chinese
2 Aug 91 p 1

[Article by Qing Shuangyue: "Hebei, Shanxi Enjoy Plentiful Summer Harvests"]

[Text] Grain production in Hebei Province this summer overcame major obstacles and reaped bumper harvests. Estimated gross output is over 9 million tons, close to the high level attained in 1990. "Agriculture is the basis of the national economy, and grain is the basis of the basis. In Hebei, wheat is the key to the grain production." Guided by this thought, Hebei sowed over 37,732,700 mu of wheat last fall, an increase of 170,000 mu over the previous year. Improved varieties of wheat were popularized and sown with care. The emergence of seedlings was delightful, and strong seedlings looked as if they were fully prepared for the winter. However, after winter began, there was a persistent drought and three consecutive periods of cold current. Some wheat fields crackled because of the freeze. Cadres at various levels led the masses to work in the fields, watering the fields to fight the drought and applying dung and dirt to the soil to raise the ground temperature. The watered area covered more than 33 million mu, an increase of 9 million mu over the previous year. Seedlings were thus fully protected and became strong enough to survive the winter. But the situation changed drastically this spring. Rain fell throughout the province on 6 March and it was cloudy for a long time. The low temperature and lack of light seriously affected the jointing of the wheat. More than 14,000 specialists went to the fields to guide the masses in top-dressing. During that time, more than 2.37 million tons of fertilizer were applied, solving the second major difficulty. The wheat looked well and a harvest was almost certain. But in the summer, powdery mildew

broke out and spread fast. Hebei engaged in a campaign to eliminate the disease. In Changzhou District alone, more than 600,000 people were mobilized to fight the disease. The administrative bureau of the district organized three working groups that were subsequently sent to various counties and cities to inspect and supervise, and 2,425 cadres went to the forefront. They settled down in the villages and worked in the fields, shoulder to shoulder with the masses to improve management of wheat fields. During that period, Hebei supplied 2,582 tons of pesticide, a 76.8 percent increase over the same period the previous year. The powdery mildew was effectively controlled; the third major difficulty was overcome, and the wheat harvest was ensured.

However, later a large scale hailstorm led to the lodging of wheat. After a heavy rainfall in the first half of June, the temperature rose drastically, the wheat turned from yellow to white, and was ripened by the heat. The weight per thousand grain was reduced 2.14 grams on average. The wheat was finally put into storage after rush harvesting in fine and foul weathers alike. The total output was close to the level attained last year. At present, the peasants are making the best use of time to dry the wheat in the sun, to select the best wheat to be sold to the state, to aid flooded areas, and the quota of 1.3 billion kilograms of wheat has been fulfilled.

Encouraging news comes from Shanxi Province, which suffered to variant degrees gales, rainstorms, hail, and drought at the beginning of the year: the province reaped a bumper grain harvest this summer. The second year of high yield; gross output was 3.203 billion kilograms.

With an increased understanding of the role of agriculture as the basis of the economy, leaders at various levels and the large masses of peasants in Shanxi are paying close attention to grain production, and agricultural inputs have rapidly increased. This year, with the close coordination of relevant departments, the province, and districts and counties have increased their agricultural expenditures 66.7 percent and 11.6 percent respectively over 1990. The average production expenditures of farm households have grown 4.1 percent over the same period in 1990. Furthermore, last fall and winter, Shanxi initiated capital construction of farmland and water conservancy on the largest scale since the 1980s. Over 160,000 water conservancy projects of various types were constructed and retrofitted. Based on the various effective measures that have been adopted to familiarize the villages and households with the "Regulations On the Protection of Basic Farmland in Shanxi Province", and on the basis of various levels of established protective network for the farmland, Shanxi mobilized peasants to intensively recultivate land. This year the sown area of wheat increased 150,400 mu over 1990, the largest sown area since 1987. In the production of summer grain this year, Shanxi also paid special attention to the popularization and application of advanced scientific techniques. Based on incomplete statistics, the "kexin" nutrient that the Ministry of Agriculture wanted plant protection stations to popularize was applied to 1.3

million mu from January to May this year, accounting for one-fifth of the total applied area in the country.

The news about floods in some southern provinces and cities raised the initiative of Shanxi peasants to actively sell grain to the state. They said they should sell more and better grain to aid the people in flooded areas. Hejin County in Yuncheng District fulfilled the tasks of state grain purchase, agricultural tax in grain, negotiated price and state-set price grain, state reserve grain and local reserve grain in eight days with guaranteed quality and quantity. The county has been the first to fulfill the grain procurement task for three consecutive years.

Article Urges Proportional Increased Poultry Production

91CE0778A Beijing NONGMIN RIBAO in Chinese
5 Aug 91 p 1

[Article by Sun Naihui (1327 0035 2585): "Speed Up Readjustment of the Meat Product Mix"]

[Text] Since last fall, a "raise chicken fever" has sprung up everywhere. In this great fervor, the upsurge to raise chickens for meat was prominent, greatly increasing stocks and slaughtering. In examining reasons, from the viewpoint of the relationship between feed and livestock, it was because of two consecutive years of bumper harvests providing ample feed for developing poultry and meat production. From the point of raising animals, it was because profits from raising chickens were higher. We can say definitely that this fervor brings hope for readjusting our meat products.

At present, our meat product mix is still unreasonable. In 1990, China's total meat output reached 28,570,000 tons, leaping to first place in the world. But 22,808,000 tons, or 79.83 percent, was pork, and chicken accounted for only 3,229,000 tons, or a mere 11.3 percent. This kind of over-proportion of pork and under-proportion of poultry mix indicates an excess consumption of grain. Therefore, accelerating readjustment of the meat product mix will benefit the producer, consumer, and the country.

One, economic benefits of revising the meat product mix.

At present, hog-raising generally requires five kilograms of feed to turn it into one kilogram of pork; the ratio between feed and meat in high production areas exceeds 4:1. Chickens generally require 2.5 kilograms of feed for one kilogram of meat, in some high production areas the feed to chicken ratio is 2.1:1.

Most hog-raising areas require 10 months to ready a hog for market, the net profit from each head is 30-50 yuan; even raising 100 hogs would bring at most a net profit of around 5,000 yuan. But chicken-raising has the advantages of conserving feed, faster fund turnover, and high profit. At present, it generally takes 56 days to raise a chicken for market, if an average chicken weighs 2.3

kilograms, and each live chicken sold for 4.80 yuan per kilogram, each chicken would earn 11.04 yuan. Deducting costs for feed, electricity, labor, vaccination, medicines, etc., the net profit would be over two yuan for each one. If five batches of chickens were raised annually, and each batch has 1,000, then net income would be 10,000 yuan. It can be seen that the economic benefits of raising chickens are much greater than for hogs.

Two, social benefits of revising the meat product mix. From the viewpoint of nutrition, of all types of meat, pork has the lowest protein content. According to estimates, the protein content of each kilogram of meat is: chicken 22 percent, duck 14.5 percent, fish 15-20 percent, lean lamb 18.2 percent, and pork only 9.5 percent. Thus, it is absolutely important to change the current pork-dominant mix.

Viewed from the feed and animal relationship, in 1990, gross grain production reached a record 435,000,000 tons, but average consumption was only 380 kilograms, still not reaching the world average. In the situation where cultivated land from now on continues to decrease and population ceaselessly grows, even with various measures to increase production it is forecast that by the year 2000, average consumption will scarcely increase over what it is now. At the same time, demand for meat will continue to grow. If more meat needs to be produced with limited feed, it will be necessary to adjust the internal structure of the livestock industry, increase the proportion of meat with high yield of return on feed used, such as chicken, duck, goose and beef. This is a development strategy that is scientific and appropriate for our national situation.

In today's developing nations, the proportion of poultry (especially chickens) among meat has increased, in Japan it is 40.9 percent, in the United States 32.7 percent, even the world average is over 20 percent. In 1984 in China, poultry accounted for 8.82 percent of meat output; in 1990 it increased to 11.3 percent, an increase of 2.48 percentage points in six years. Compared to the world level, the gap is wide; compared to ourselves, changes in product mix have been slow.

Three, constraining factors to readjusting meat product mix. Although chicken production has advantages such as high yield on feed and fast fund turnover, in terms of raising, inoculation and purchase, it is not suitable for small households that engage in scattered raising. It requires a definite scale to facilitate management and lower cost. This production style is constrained by factors such as space, equipment, funding, etc.

From the viewpoint of technical and managerial levels, at present China is still at a low level. Developed nations have a space and supply ratio to meat of 1.9:1, but our best has only reached 2.1:1, generally, it is 2.5:1. Undoubtedly, this increased cost and boosted price.

Viewed from price, at present the market price of chicken is too high. Of meat products in the United States, chicken prices are the lowest. In China, the price of chicken (breasts) in state-owned food stores is as high as 7.50-8.00 yuan per kilogram. This high price, high profit management strategy restrains consumption, and the limitation upon consumption in return restrains production expansion.

Furthermore, sluggishness in links that complement feed production, inoculation against disease, slaughtering, processing and sales also inhibit developing chicken production.

Since the "raise chicken fever" last fall, due to the impact of slaughtering, processing, storage, transportation, and sales as well as market factors such as price, amount of consumption, etc., problems had already emerged in May. Shandong, Jiangsu and such areas saw the phenomenon of tumbling prices and difficult sales. This passive situation cast another layer of dark shadows over readjusting product mix. People worried that after "overheat," "overchill" would appear.

Revising meat product mix, and increasing the proportion of poultry, is the general trend, it is even more pressing at the moment. The issue is that the departments concerned must pay attention to pre-production, production and post-production service, promote production development, and concurrently use good prices and other market factors to guide consumption.

Problems in Mainland Libraries Viewed

91CM0476A Hong Kong TANG TAI
[CONTEMPORARY] in Chinese No 3, 15 Jun 91 p 40

[Article by Ssuma Mei-chun (0674 7456 2734 0689):
"Crisis in Mainland Libraries"]

[Text] Cultural circles on the mainland are facing a crisis. The contract system has also appeared in publishing houses in the hope that, as in other economic domains, the system will be able to bring economic results, reverse their decline, and rescue them. However, no matter how many "magic weapons" are used the publishing profession is one of the professions that is in most decline, and people know it.

Like the publishing profession, in another cultural undertaking a crisis has appeared, namely, the library profession in which the crisis is serious. This is another worrisome problem for the cultural circles.

Libraries Give Priority to Making Money

In a society in which "money is the key link," in all professions in China the change in the concept of value has caused the libraries to change their original orientation. As everyone knows, the libraries originally were in the service of the masses. Take Shanghai for example. Previously its libraries provided many services for the masses. What was most welcome was the research reading room that served researchers. Under a free, unlimited system, the researchers could, in this reference room check out rare books, thread-bound Chinese books, and imported books. What particularly touched people was that at that time the library staff would provide an individual with a complete set of research and reference books. The chief librarian at that time was Mr. Gu Tinglong [7357 1694 7893], a noted textual scholar. He was kind to other scholars.

However, in recent years the libraries have changed their orientation from that of serving readers to that of giving priority to making money. For example, to get a library card one must pay money, to borrow books one must pay money, and if one's books are overdue one must pay a fine. The photocopier in each library has become a money-making machine.

A library's collection of some fees is, in itself, beyond reproach. The problem is that the collection of these fees by the mainland libraries is little short of being a case of fleecing. Libraries even set criteria for the collection of fees for popular books. For example, in recent years there has been a craze for novels about ancient swordsmen, for romance novels, for popular Western novels, and even for books on the art of the human body, astrological fortune telling, sexual knowledge, etc. High fees are collected for these popular books.

Many libraries hold fee-paying exhibits of these popular books. Some libraries even close off some of its rooms and make them into dance halls or coffee shops.

Therefore, the libraries have become commercial organizations under contract that are responsible for their own profits and losses.

Poverty of Libraries

The libraries have no money and cannot buy books. Therefore, their book collections are constantly going down. Even if every year there is a certain fund set aside for purchasing books, it cannot keep up with the rising prices of books. It has been disclosed that in recent years the prices of newspapers and periodicals that go to libraries have risen as high as 20 to 30 percent, a rise that may be said to be alarming. Take Shanghai for example. According to reports, Shanghai libraries and academic units are more than 3 million yuan in arrears for books from the Shanghai Foreign Language Bookstore. Because of a shortage of funds, many libraries have had to reduce the number of books, periodicals and newspapers on order. For example, Shanghai's Fudan University had originally subscribed to more than 1,300 original edition periodicals; now, because of the shortage of funds, it has had to cut the subscriptions, from more than 1,000 periodicals to only 300.

As for the obsolescence of library equipment, the libraries are still sticking to the method of checking out books that was in place several decades ago. Book stealing and book damage are serious. Many older professors sigh and say that the moral degeneration of the world is getting worse day by day, and perhaps the world is now back in the times of Kong Yiji, written about by Lu Xun, when stealing books was not counted as stealing.

Rescue the Libraries

Political scientists in China often ascribe the causes of unfortunate phenomena in culture to bourgeois liberalization or Western political democracy. Actually this is not the case. The problem is very simple: The openness of the cultural policy is far from keeping up with the openness of the market policy. In other words, the Left deviation still occupies the ruling position in cultural circles. Those "Leftist" forbearers who were under Mao Zedong often flagrantly interfere in cultural policy. Consequently, in the cultural circles, the clashes on each side, from first to last, cannot stop from taking a bloody path. This going to and fro only leads to retrogression.

The crisis in libraries is precisely a punishment for this path of retrogression. Such being the case, it is impossible for economic development to spur cultural development. On the contrary, reducing outlays for libraries and making them enter the "alley" of being responsible for their own profits and losses mean that, although they twist and turn, they cannot get out of this "blind alley" and have to resort to "magic weapons" to make money and have to cut back on the number of books they collect. Even the original collection of duplicate books has been cut down, leaving only a few of them, leading to

the odd phenomenon of people lining up to use them, and causing the cultural circles to face decline and retrogression.

What do people expect? More money is needed, but spiritual food is needed even more. Rescue the libraries!

Four Contradictions in Married Life

91CM0555A Beijing ZHONGGUO SHEHUI BAO
in Chinese 30 Jul 91 p 3

[Article by Lu Guoli: "Four Contradictions in Marriage in China"]

[Text] At a sociology symposium, the well-known sexologist Liu Dalin discussed his views on troubled marriages in China. He believes these problems are prominently reflected in four areas.

First is the contradiction between rural and urban married couples' general and concrete feelings with regard to their families. In a survey, 91.8 percent of married couples said they are satisfied or relatively satisfied with their marriage. This shows that presently in China marriages are very stable. But, things are different when concrete questions are asked. For example, do you miss your spouse when you are separated for three months? Thirty-one percent answered no or not much. When separated from your spouse, do you feel relaxed? Twenty-seven percent answered yes. Do you often think that you would be happier now if you were married to someone else? Thirty percent said they thought so, or often thought so. This shows that although 91.8 percent are satisfied with their marriage, there is dissatisfaction on concrete issues. This is a very serious contradiction.

Second, there is a contradiction between understanding or reason and actual conduct. Wife beating is understood to be wrong, but many people still beat their wives. Many people understand that extra-marital affairs are wrong, but they would still have extra-marital affairs under certain conditions.

Third, there is a contradiction between opinions on oneself and opinions on others. A marriage crisis happening to a friend would be considered alright, but considered wrong when happening to oneself.

Fourth, there is a contradiction between appearance and actual practice. One would appear to be ashamed of excessive sex, but would actually engage in it.

Liu Dalin also emphasized the issue of extra-marital affairs. He said one question in the survey was: "Do you have or have you ever had sexual partners other than your spouse?" Urban married women represented the highest group, 14.8 percent answered yes. This is a rather high rate. Analysis shows that Chinese women are much more dissatisfied than men with their marriage. (Excerpted from GONGGONG GUANXI DAOBAO 28 June)

Causes of Abduction of Women Discussed

91CM0555B Beijing RENMIN GONGAN BAO
in Chinese 16 Aug 91 p 3

[Article by Rong Lisheng, Niu Yongfu, and Chen Angen: "Causes of the Crime of Abducting Women"]

[Text] Beside the inducement factor of human traders, the crime of abducting women is also caused by many societal factors.

(1) In some regions, peasants have difficulty finding spouses, and are willing to go so far as to buy wives, which is fertile soil for criminal activities.

For example northwestern Shanxi, and Yanbei which has developed recently due to the coal industry, were notorious for their poverty. Some peasants have become "old single men" because of difficult living conditions, and their own poor qualifications to find a spouse. "Females" who have grown up in these poor regions are not content to live there all their life, and a large number have left to marry outsiders. There is a serious disproportion of men to women in these regions. After the Third Plenum of the 11th Party Central Committee, these peasants improved their economic status, but they were already old, and had difficulty finding spouses locally. In their eagerness to establish a family, they did not care about right and wrong, or about the price, as long as they could get a wife. Although some young people have better conditions, they are surrounded by those having difficulty finding spouses. They fear becoming "old single men" if they do not seize the opportunity, and vie for the "purchase" of "goods" presented to them. To prevent their family from being childless, parents and relatives of the "buyers" act as go-betweens, and some even use violence to force cohabitation.

(2) Affected by the unhealthy custom of wedding extravaganza, the cost of weddings is on the rise, and exceeds the peasants' ability to bear, causing some people to join the ranks of "wife" buyers.

In Yanbei abduction of women is a serious problem, to marry a local woman would cost nearly 10,000 yuan for such items as dowry, building a house, and banquets. However, buying a wife requires neither banquets nor dowry, and is cheap and convenient, costing only about 2,000 yuan. Thus more people are seeking "marriages" through this "shortcut."

(3) The influence of feudal ideas and unhealthy tendencies also provide a convenient hotbed for such criminal activities.

Many buyers believe that paying money for wives is business, and is reasonable and justifiable. They regard women as instruments for producing offspring, and beat at will women who are disobedient. Those who do not bear children are resold. On the other hand, public opinion tends to favor the buyers (especially in some poor regions). When women who were bought flee, the

public gets angry. The public regrets people being rescued, and accuses the rescuers of being "wicked and unreasonable." Therefore, in some villages, when public security personnel are spotted, people behave as if facing a dreadful enemy, they inform each other, and transfer or hide the women bought. Thus, rescue personnel often come away empty-handed. This situation has objectively provided market and haven for those criminals.

(4) Increasing gaps between different interests and vicious development of money worship have provoked some people into losing moral restraint, and into engaging in "human" trade despite the huge risks.

In contemporary society, the balance and stability in relations between various interests are usually determined by a society's politics, economics, culture and people's ideas. Various inevitable imbalances have resulted in the sudden growth of the gaps between various interests. Because illegal profit-seeking has different modes and opportunity costs, there have occurred huge gaps between interests. Thus, human traders seize this opportunity to "commercialize" women. They believe that "everything of a woman is valuable, and this business is zero in cost but high in profit." Especially those peasants liberated from the land, once they have tasted the "sweetness," and realize that "selling humans" brings higher and quicker returns than farming, their motivation for such crimes is enhanced.

(5) Some women are frivolous, seek near-term happiness and instant pleasure, and thereby get trapped. Some have even turned from victims into perpetrators of the crime.

Zhao Lianyin, a young women of Guxianzhen, Qixian County, left home, and was abducted at the Xi'an station by a human trader who enticed her by taking her to Mount Tai to see the sunrise. Miss Zhao happily went along, travelling with the human trader during the day and sleeping with him at night. She was happy travelling

and never thought of going home. After being sold for 2,400 yuan, she finally woke up, but it was too late for regrets.

(6) Weak legal consciousness, and paralysis of grassroots-level government organizations has resulted in a lack of enforcement of many rules and regulations. This has objectively resulted in the condoning of such crimes.

Despite repeated state pronouncements and commands, and numerous organized suppression efforts, some cadres do not have a clear understanding of the crime of abducting women. Weak work at the grassroots has objectively resulted in the condoning of such a crime. Some cadres believe that human traders are "long-line match-makers," and are providing "old single men with wives," thereby stabilizing the social order and "helping people." But they do not care about the pains of the women abducted, violation of sacred life, health and right to sexual freedom, and turn a blind eye and deaf ear to criminal activities, protecting, and condoning crimes. In addition, amidst the worsening public security situation and unhealthy tendencies, grassroots-level cadres are often attacked. As a result, this dirty "business" is on the rise.

(7) There is no strong deterrent against the criminals, and nothing has been able to stem this criminal current fundamentally.

First, existing laws and regulations are incomplete and not strict enough.

Second, suppression efforts have been weak. More human traders are released than sentenced. This has objectively made criminals more daring.

Third, the state does not have clear and forceful legal sanction measures against the buyers, and the punishment is too light.

Public security and law-enforcement personnel urgently demand the adoption of the "Decision on Suppressing Abduction," to severely punish criminal activities of abducting women.

Taiwan's New Direction of Foreign Expansion

91CE0644A Hong Kong LIAOWANG (OUTLOOK)
OVERSEAS EDITION in Chinese
No 23, 10 Jun 91 p 20

[Article by Wang Chien-min (3769 1696 3046): "New Direction in the Development of Taiwan's Foreign Relations"]

[Text] In their efforts to "open up new living space," the authorities on Taiwan have in recent years placed their main emphasis on the pursuit of a "flexible diplomacy," developing "de facto relations" with countries which had no diplomatic relations with Taiwan, and seeking in this way to gain "break-through points" that would allow an escape from the dilemma of diplomatic isolation. In the last years of the 1980's, Taiwan has been successful in establishing "de facto relations" with several countries. This new direction in Taiwan's foreign relations has indeed already attracted general attention.

Taiwan's Foreign Relations

There are now 28 states and territories that maintain diplomatic relations with Taiwan. Eleven of these states and territories have established embassies on Taiwan, one has a consulate, and the other 16 states and territories have not yet set up embassies on Taiwan.

Apart from South Korea and South Africa, which are comparatively important countries, the rest of the 28 states and territories that have diplomatic relations with Taiwan are mainly small island states scattered over the Pacific Ocean and around the Caribbean Sea, most of them with populations of less than 300,000. In 1990, Taiwan's total trade with all countries that have diplomatic ties with Taiwan was \$3.17 billion, which was 4.7 percent of Taiwan's total foreign trade. Of this trade volume, Taiwan's trade with South Korea alone amounted to \$2.56 billion during the said year. This shows that Taiwan's establishment of diplomatic relations is not only for the purpose of gaining economic benefits, but rather motivated by some kind of political aspiration.

Taiwan has set up representative agencies in 53 countries and territories without diplomatic ties; in 50 of them the representation has been dispatched by the "Ministry of Foreign Affairs," two of them are agencies of Taiwan's "Ministry of Economic Affairs" and the "External Trade Development Council," and one is the overseas agency of the "News Bureau." Taiwan has stationed abroad another 110 agencies of comparatively low rank. There are, furthermore, about 30 states and territories without diplomatic ties with Taiwan that have established such agencies as institutes, exchange councils, or commercial offices on Taiwan. Although Taiwan has no diplomatic relations with the mentioned countries, it maintains very substantial economic and trade contacts with them; Taiwan's trade with these countries accounts for 95 percent of Taiwan's total foreign trade.

Measures Taken as Adjustment of Foreign Policy

In line with developments and changes in international politics and economic conditions, and to meet needs posed by its own interests, the authorities on Taiwan are continuously readjusting their foreign policy. At present, to cope with the new international situation, the authorities on Taiwan have injected a new significance into their policy of "flexible diplomacy," by adopting as its focal point the establishment of "strong de facto relations" with countries and territories that have no diplomatic ties with Taiwan, and pursuing the policy of "first establishing a strongpoint, then developing it into a bilateral relationship," so as to change Taiwan's foreign relations from "anonymous but substantial" to "recognizable and substantial." Its principal measures to achieve this are:

Establishment of more representative agencies in countries without diplomatic ties and raising them in rank. Since last year, Taiwan has set up representative agencies in nine further countries in a rapid increase of such overseas agencies. It has also raised the rank of these overseas agencies, giving them uniform "Taipei-ish" designations and thereby imparting to them an "official character."

On the other hand, foreign agencies on Taiwan have also increased and these agencies have, moreover, also tended to raise their status. At the beginning of 1989, some foreign countries had adopted the pattern of the "American Institute in Taiwan," some have decided to raise their Taiwan agencies to semi-official status. This is also due to efforts on the part of the Taiwan authorities.

Expanding mutual contacts with countries without diplomatic ties by such acts of sovereign character as "granting visas" and "granting navigational privileges." Through forms like these, the authorities on Taiwan are achieving their objective of "de facto relationships." Presently, visas are being granted by Taiwan to some European countries for tourist or commercial purposes. It is also becoming more and more common practice for the Taiwan authorities to grant foreign countries direct shipping privileges. Last year, Taiwan concluded "maritime treaties" with five countries, and with some countries it was a "first time" for their shipping contact. At present, Taiwan is again officially concluding "navigational agreements" with some countries, and is also in the process of negotiating navigational problems with some countries. All these are indications of the expansion of Taiwan's foreign relations and of Taiwan's efforts to elevate these relations to a higher level.

Using its economic strength as enticement in the establishment of "de facto economic and trade relationships" with the Western countries. The authorities on Taiwan have decided on a "Six Year National Construction Plan" for the period from 1991 to 1996, with an investment of \$300 billion. Taiwan will use this as an enticement for expanded de facto relations with the major Western countries. To gain economic benefits, such as

contracts for engineering projects, these countries will not be averse to engage in "political trading," thus breaking former taboos against "diplomatic relations" with Taiwan. They will dispatch high-ranking officials to visit Taiwan, in some cases for the first time since breaking off relations with Taiwan some 20 years ago. High officials from Taiwan are also frequently visiting these countries in order to raise the "mutual de facto relationship" between Taiwan and these countries.

Energetic efforts to gain entry into international organizations. In 1989, the Taiwan authorities dispatched their "Minister of Finance" to participate in the 22nd meeting of the "Asian Development Bank" held in Beijing. In compliance with their policy of "flexible diplomacy," and to gain more living space, the authorities on Taiwan gradually abandoned their standpoint of "there is no place in the world for the two of us," and adopted the tactics of "not shying away from confrontations and not yielding," thereby energetically trying to gain entry into international organizations, as, for example, their attempt to join the "General Agreement on Tariffs and Trade" (GATT).

Developmental Direction of Taiwan's Foreign Relations

Not much progress will be possible in the establishment of foreign relations on the pattern of "diplomatic relations." In the last few years, in pursuit of its policy of "flexible diplomacy," Taiwan has exerted much effort on "establishing" or "reestablishing" diplomatic relations with some smaller countries, and has indeed achieved certain successes in this respect. However, activities of the Taiwan authorities to profit politically through exchanges involving "money diplomacy" have aroused severe criticism by all circles of society and particularly by the opposition party. On the other hand, the "flexible diplomacy" of the Taiwan authorities has suffered serious setbacks since July of last year, when countries that have had diplomatic ties with Taiwan or that had been closely related to Taiwan, such as Saudi Arabia, Indonesia, and Singapore, established or reestablished diplomatic relations with the PRC. This is a clear indication that Taiwan's "money diplomacy" is no panacea. The international standing and the decisive role of the PRC has gained world recognition.

Taiwan will, of course, not completely give up its efforts to establish or reestablish diplomatic relations with small countries of the third world, and will still pursue such efforts, with particular points of special emphasis and also selectively, according to changes in the objective environment, but this will not again be the focal point of Taiwan's efforts in foreign relations. Not too much space in Taiwan's development will be afforded to this kind of foreign relationships.

Establishment of "de facto relations" with countries or territories that have no diplomatic ties with Taiwan will still be the area where more progress will be made. In their efforts at developing foreign relations, the Taiwan authorities will place key emphasis on the improvement

of its "de facto relations" with the countries and territories that have no diplomatic ties with Taiwan and on raising the official rank of such relations. This will be done, for example, by mutual visits of high-ranking officials, raising the standing of the respective agencies in each other's countries, the granting of visas—an act of "diplomatic and consular" character—for tourist or commercial purposes, and the granting of navigational privileges, which actually involves the question of "sovereign rights." Judging by the present tendency, some progress may still be made in these relations of the Taiwan authorities, but progress in this area will still have its limits. In the wake of Mainland China's economic development and the further implementation of its policy of reform and opening to the outside world, the PRC will play an ever increasing role in international affairs, and that is what many countries will have to take into account when they plan to establish relations with Taiwan.

Taipei Seen as Possible International Finance Center

91CE0628A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 24,
17 Jun 91 p 32

[Article by Chang I (4545 1837): "Is it an Illusion That Taipei Could Become an International Financial Center?"]

[Text] Since the late 1980's, liberalization and internationalization of Taiwan's finances have noticeably picked up. One of its goals is to establish Taipei as an international financial center.

To Realize the Goal They Must Accomplish Several Tasks

In his report to the Chinese-American Chamber of Commerce, Taiwan's Central Bank Foreign Exchange Department Head P'eng Huai-nan [1756 3232 0589] pointed out that Taiwan has numerous advantages and predicted that within a few years it could become an international financial center. To arrive at this goal, Taiwan is preparing to accomplish several tasks, including constructing a large fully equipped financial building available to countries to conduct financial activities in Taiwan; improving teletype equipment; opening various brokerages to conduct business in Taipei and make Taipei an important point on the international network; expanding financial training; and establishing an international financial information station and opening a gold market. Quite obviously, these tasks only involve the technological and equipment aspects and the key to becoming an international financial center certainly does not consist in this.

More Essential Conditions

Taiwan's Tung-wu [2639 0702] University professor P'an Chih-ch'i [3382 1807 1142] spoke in much greater depth on the necessary conditions for becoming an

international financial center. He said that first they must abolish foreign exchange controls to aid the cash flow. Second, the currency should be internationalized to expand its international holdings and use. In addition, [they must] allow foreign financial organizations and enterprises to use and transfer their funds in the domestically run broad and deep financial markets (including money markets and capital markets). Finally, in internationalizing, several foreign financial organizations must initiate financial activities in this area and, likewise, banks from this area must go abroad to conduct various financial exchanges.

Presently Disadvantages Outnumber Advantages

Since the Taipei international financial center concept was proposed nearly ten years ago, how many conditions for developing an international financial center has Taiwan acquired? Can it become an international financial center in a few years? At the "Is a Taipei International Financial Center an Illusion?" Symposium held recently in Taipei, quite a few scholarly experts expressed a great many views.

They confirmed that Taipei's establishing an international financial center could have three good points: 1) it could elevate formerly backward financial standards; 2) the earnings from intermediary financial services could directly contribute to an increase in the gross national product; 3) At least, loans would be easier for Taiwan area companies.

But the experts also believe that under present circumstances unfavorable conditions seem to outnumber favorable conditions. Although Taiwan has a strong economy, a high national income, a large trade volume and a high reserve rate, and a large foreign exchange base, a number of necessary conditions still have not matured such as a lack of soft and hard facilities, including legal, language, and accounting talent. Also, the excessively slow pace of Taiwan's internationalization and the longstanding anti-foreign mentality engender a fear that foreigners will cheat them out of money. If this mentality is not eliminated, it will be very difficult for them to achieve Hong Kong's level of financial freedom and internationalization.

An expert also indicated that the situation with foreign banks that have come to Taiwan to establish branches has recently become increasingly close. Presently 39 foreign banks have established 50 branches in Taiwan, and of the 30 Taiwan financial centers 16 are affiliated with foreign banks and 14 are affiliated with Taiwan banks. But as regards development of financial centers, it is still not too ideal. For example, their total assets reached US \$20.4 billion at the end of last year, but had fallen to US \$18.5 billion at the end of this April. The decrease for the most part was a decrease in external financial claims. Judging from the current development of Taiwan's international financial business, they still are far short of international financial center standards.

They Must Use the Present Base Very Well

Experts, however, generally think that Taipei's becoming an international financial center is certainly not an illusion, because Taiwan has a very good base to develop an international financial center. The key now is in how earnest and down to earth a job they do of using this base well and constantly creating the conditions required for it to reach international financial center standards.

An expert proposed that Taiwan imitate what Singapore did 15 years ago when it established a transministerial organization for this task and passed legislation to promote it and could entrust the implementation of the specific plan to a specialized international company. The expert believes that Taiwan's international financial center should be placed with Hong Kong and Singapore's, because the three have a great many similarities. First, they are all Chinese; second, they can use the overseas Chinese force. Although Taiwan's relations with overseas Chinese are not as close as Singapore's and Hong Kong's, they still can be cultivated. He indicated that after the ministerial organization draws up the developmental steps and establishes a timetable, Taiwan is bound to develop a financial center in ten years. Although it does not appear that it could catch up with Hong Kong, it could equal Singapore.

An expert also indicated that the establishment of an international financial center certainly cannot be accomplished by government order and promulgating a package of laws, but will only be considered accomplished after subjective and objective conditions ripen over a long period of time and it is internationally recognized to have the necessary functions. So, if the government does not start with the basic issues, even if they build an international financial building, they cannot make Taiwan into an international financial center.

It Is Extremely Necessary To Improve the Quality of Financial Services

After all what direction should Taiwan's efforts now take? Experts think that to establish an international financial center they should first establish goals, arrange a timetable, and take example from the world's three large financial centers. Because London has a small domestic market and little trade surplus, it draws funds from various areas of the world and provides good financial use markets in London. New York has the world's largest domestic market and various types of money markets. Hong Kong is principally a regional financial market, drawing Asian regional funds and reinvesting in the Asian region, playing the part of intermediary. In short, each international financial center is a different type and each has its distinguishing features. Taiwan should first determine its own direction of development and type and then strive for this goal.

Some experts pointed out that an international financial center also should be safe, convenient, and profitable. As far as safety is concerned, it must have a stable administrative environment and a free cash flow. Regarding

convenience, it can also be divided into financial services, information services, and life services; that is, financially efficient, good quality telecommunications products, and capable of providing international personnel with a comfortable living environment to attract them to come to conduct financial transactions. In the developmental process they will need more financial experts. So, from here on Taiwan must improve its personnel training.

Can Taipei become an international financial center? Quite obviously, no one regards it as being at this level now, but the appearance of this type of argument ultimately reflects the direction of Taiwan's aspirations and efforts. The problem is in truly striving hard to create the conditions and not thinking that it can be achieved by dreaming.

Seminar Studies Expansion of 'Cross-Strait Relations'

91CM0544A Beijing RENMIN RIBAO in Chinese
7 Aug 91 p 1

[Article by reporters Di Xiangqian (5049 6272 0051), Zheng Gugu (6774 0942 0942): "Probing Into the Ways of Expanding Cross-Strait Relations"]

[Text] An academic seminar on "cross-strait relations" and how to further promote development of relations between the two sides of the strait and peaceful reunification of the motherland began today at the Great Hall of the People in Beijing. Based on the spirit of seeking common ground while reserving differences, and rational exploration, more than 120 experts and scholars from both sides of the strait, Hong Kong, the United States, and Japan will broaden thinking, and be frank and open. Through exchange of ideas, promote comprehension, strengthen mutual understanding to probe and seek ways to eliminate obstacles, further promote cross-strait relations, and accelerate unification of the country.

Zhang Wanxin, deputy director of the Taiwan Research Association presided over the opening ceremony. In his opening address, Jing Shuping, deputy director of the Taiwan Research Association on behalf of sponsor units Taiwan Research Association, All Taiwan Federation, Institute of Taiwan Studies of the Chinese Academy of Social Sciences welcomed the experts and scholars who participated in the meeting.

He pointed out that under the joint efforts of compatriots from both sides of the strait, the situation in the strait is developing in a favorable direction toward peaceful reunification. He said we must also see that

there are still many obstacles to developing relations between the two sides. The direct "three exchanges," two-way exchanges, and discussions at high levels which people from both sides desperately request have not been realized. The divisive activities of a minority of "Taiwan Independence" members on the island cast a new shadow on peaceful reunification. This requires all of us to conscientiously study, and actively find ways for elimination and solution.

Jing Shuping expressed hopes from now on this kind of study discussion can be conducted frequently in the mainland and in Taiwan. With concerted efforts and wisdom from both sides of the strait and from abroad we can promote continuously cross-strait relations and peaceful reunification of the motherland.

Zhang Kehui, Ru Xin, Li Qingzhou, Ji Chongwei, Jiang Dianming, and Guo Pin all participated in today's opening ceremony.

Immediately following were reading of papers. Research fellows Jiang Dianming and Guo Xiangzhi of the Institute of Taiwan Studies of the Chinese Academy of Social Sciences said in their talks that now is a significant moment in the development and transformation of cross-strait relations. Both sides should take a practical and rational attitude to seek common ground, reserve differences, mutual understanding and mutual accommodation, and begin with what is acceptable to each other. This is the key to further promote cross-strait relations. Professor Xiong Jie of New York University believes that there are five contradictions and five turning points in the reunification of China, and understanding these turning points can push forward the development of reunification issues. Deputy director of the Taiwan Research Association, Ji Chongwei presented prospects for reform, opening up and economic development on the mainland in the 90's. Professor Li Ziyi of Taiwan Dan Jiang University stressed that there is a "cultural umbilical cord" between the two sides which is unbreakable by any force. Therefore, he suggested that the two sides reinforce cultural and academic exchanges and achieve "mutual actions, mutual trust, mutual accommodation and mutual exchange." Professor Fang Sheng of People's University believes that reconciliation between the two sides is the only way to reunify the country. Professor Yang Liyu after expressing his opinions in the article "Problems Facing Cross-strait Relations and Future Developments" proposed that participants donate funds to disaster areas in the mainland.

In the afternoon, Wang Xiaobo, Yu Shutong, Lei Yuqi, Guo Zhaolie, Lai Shanglong, Zhang Xiaochun, Li Jiaquan, Hou Jiaju and other scholars read their papers at the meeting.

Investors Encounter Problems on Mainland

91CE0631A Hong Kong CHENG MING
[CONTENDING] in Chinese No 6, 1 Jun 91 pp 77-79

[Article by Ke An-jen (7133 1489 0086): "Getting to the beach is easy, but landing is tough—the difficult situation of Taiwan businessmen who have invested on the mainland; this is the Chinese Communists' painstakingly planned united front of 'surround government with businessmen, overcome officials with the people': after the Taiwan businessmen bent solely on profit become mired down on the mainland, they are bound to put pressure on the Kuomintang authorities and demand justifiable 'direct business, direct transportation, direct posts' and this could make the government's 'three no contacts' policy crumble"]

[Text] Taiwan Business Losses Reach 80 Percent

"Getting to the beach is easy, but landing is tough!" so sigh many Taiwan businessmen who have invested on the mainland. After the enthusiastic upsurge had passed, the bitter fruit finally appeared.

Not long ago, Ch'en Chi-po [7115 1323 0130], Vice President of the Hong Kong-Taiwan Merchants Association, disclosed that in the past few years investment on the mainland by Taiwan businessmen has grown steadily but the majority have resulted in losses. Materials obtained by the association showed that over 60 percent of the investments in Guangdong by Taiwan businessmen resulted in losses and reached 70-80 percent in Fujian.

Ch'en Chi-po ascribed Taiwan business losses on the mainland to three reasons: 1) After Taiwan businessmen invested in setting up plants they have to pay an unusual number of administrative fees to local government, but there is no way to calculate expenditures for gifts and "expenses" so production costs increase. 2) Foreign customers know that some products were produced on the mainland and purchase prices may be lowered. 3) Such problems as uneven product quality and irregular delivery times occur frequently also reduce orders and create a vicious cycle.

Yet, although Taiwan businessmen have suffered heavy losses, why do they still pour into the mainland "wave upon wave"? Chen Chi-po has analyzed this psychology and thinks that Taiwanese self-confidence is over-inflated and that they subjectively believe themselves more capable than others (the inability of others is not the same as my inability). In addition, the industrial structure of the mainland coast is still at the stage of labor-intensive industries of Taiwan twenty years ago, and based on their past experience, Taiwan businessmen are swarming to "establish a beachhead."

Application for a Joint Venture License Can Take More Than a Year

Actually, after selecting a mode of investment and the place, the problems facing Taiwan businessmen who

invest on the mainland are only just beginning. Usually, after the Taiwan businessman has sold the idea to the Chinese Communist officials, he then readies capital and equipment and searches for a site and a plant, arranges for water and electricity and deals with the administrative procedures for license and registration. Now the Taiwan businessman senses that the various priorities and guarantees formerly promised by the Chinese Communists have somehow fallen short. This is because those Chinese Communist officials who make these promises to the Taiwan businessmen are not the officials who actually handle Taiwan investment. Now the nightmare begins.

Businessmen on Taiwan gaze at those in the same business invariably with envy those in the same business who have thrived on the mainland, but do not expect that applying for a license to operate a joint venture on the mainland would take over a year. With good luck or by giving gifts and entertaining, it can still take over six months. "Nanyang Wood," a joint venture in Guangzhou, was open for business for a year without obtaining an operating license, and in the words of a Taiwan businessman, "they worry you to death without getting their come-uppance." Usually, once they first find the "Taiwan Affairs Office" [duitaiban 1417 0669 6586], and after going there, they go to the municipal government's Bureau of Industry and Commerce; after they have gone to the municipal government's Bureau of Industry and Commerce, they proceed to the foreign trade unit; following that they go to the foreign trade unit; next they go to the provincial government's General Office, and when they have gone to the General Office, they then go to...the speed of the entire process depends on whether the Taiwan businessman is diligent and generous, or whether or not he found the right person. Someone from Taiwan who had held a position at the level in charge in Guangzhou said with deep feeling that he had to spend 70-80 percent of his energies dealing with the Chinese Communist bureaucratic system, leaving only 20-30 percent of his energies and time to run the plant and the business.

After "Landing" Complain Bitterly Day After Day

If "troubles come in bunches" there is little to do but complain. A fire occurred at a shoe factory financed solely by a Taiwan businessman in Bolo County, Guangdong. Direct losses were RMB 8 million. Two employees died and over 40 were injured. But because the plant's business license and related insurance procedures were "traveling" in the Chinese Communist bureaucracy, the losses and problems as a result of the fire could not be compensated because the insurance procedures were not yet completed.

Low efficiency similarly occurs in supply of raw materials, communications, sanitation and hygiene, food, transport and equipment maintenance. Shenzhen does not have enough power, it's often "three on and four off" (i.e., supply of electric power during the week is three

days on and four days off), this terrifies foreign businessmen. Xiamen is where Taiwan investment is most concentrated and the biggest mortal wound there is transport. An official of a Taiwan-financed electronics plant said that many problems weren't discovered until after they "landed." Xiamen's harbor is small and frequently it is five to seven days after the ships dock that the cargo is delivered. Although they are working day and night on the Dongbo Wharf, the soonest it can be completed is 1992 and for Taiwan businessmen with orders in hand, distant water doesn't put out a nearby fire. To save time, some resort to shipping by land and put to sea from Shenzhen, which undoubtedly greatly adds to shipping costs. The situation in Guangzhou isn't much better. A Taiwan businessman who prefers to remain anonymous complained that most of the raw materials for their plant are imported from Taiwan and that normally one customs barrier takes several weeks and occasionally several months, depending on the work capacity. Another Taiwan businessman named Kuo [6753] who runs a restaurant, said that stoppages of water and electricity in Guangzhou are not announced in advance and that the electricity and water frequently go off suddenly in his restaurant and scares the customers away. Taiwan businessmen are burning with impatience and constantly file complaints with the relevant authorities, but it isn't until six months later that there is any formal official document asking the relevant department to cooperate in resolving the problem. Yet the Taiwan businessman named Kuo said that he had absolutely no confidence that the problem would be resolved.

Taiwan Businessmen Are Fattening the Stomachs of Chinese Communist Officials

However, some who know about what the Taiwan businessman named Kuo has encountered say privately that if you do not understand "the way of doing things in the interior and the actual situation" you will naturally run into walls everywhere. To tell the truth, the "way of doing things in the interior" is gift-giving and entertaining. After Taiwan businessmen have suffered enough they also learn the "ropes." A Taiwan businessman at a carpet plant in Xiamen complained that the local grassroots level officials did not dare to slight Taiwan businessmen's "model enterprises" that Beijing held in high regard, but have a completely different attitude towards small-scale firms. To exist, these small-scale firms very quickly learn the "incorrect style" popular on the mainland—sending special cars for customs officials to inspect the goods, wining and dining, and sending small gifts. The other party naturally takes the hint and not only is efficiency surprisingly high but also they "go easy on them."

Today gift-giving and entertaining are already out-of-date and behind the times, but astute Taiwan businessmen have found a cleverer method—hiring Chinese Communist officials who have a direct professional relationship as their own "customs managers." Their daily work is primarily being responsible for relaying documents and the subtle part here is that it is all silent.

It's said that this has already become "experience" and gone into operation in a Taiwan-financed enterprise in Xiamen. After becoming aware of the benefits of this practice, some Taiwan businessmen were all smiles: "If personnel relationships are good, efficiency is unbelievably faster; if personnel relationships are poor, it is unbelievably slow."

Yet, this type of "consorting with the enemy" also worries some Taiwan discussants. They pointed out that the complexity of personnel relationships was created by the Chinese Communist bureaucratic system, so that in those relaxed zones, capital construction and administrative capability fundamentally cannot keep up with the pace of investment growth from abroad. Taiwan businessmen have done their utmost to create relationships and send gifts so that things will go smoothly. The result of this may only be that the appetites of the Chinese Communist officials will get bigger and administrative procedures get more chaotic. Such a vicious circle will increase rather than decrease the puzzlement of Taiwan businessmen.

Here is a pertinent admonition. In fact, since Taiwan businessmen currently have only indirect trade relations with the Mainland, there are basically no legal guarantees. But the Chinese Communists not only have not drafted, but have no intention of drafting, standards for dealing with disputes between the peoples on the two sides of the straits. In the words of Ren Jianxin [0117 1696 2450], President of the Chinese Communist's Supreme People's Court, "In trying a case that involves Taiwan, one should conscientiously enforce state law and policy." The state, in Ren Jianxin's statement, naturally is the Mainland, and in accordance with the Chinese Communists' "national circumstances," it is natural that the law abide by policy. This is because in their understanding there is basically no such thing as "judicial independence." And policy is the product of Chinese Communist officials following their inclinations and whims. The practice of the Chinese Communists in handling tourist and marine disputes on both sides of the Straits in recent months were entirely policy first with the law only as a foil. They utilized the opportunity to deal with disputes on both sides of the Straits to prepare the public for their attempt to realize their "unified" hegemony.

Becoming a Sacrifice to Personnel Strife

When they first get to the mainland, many Taiwan businessmen discover that there is an unusual lack of knowledge of international trade, which is the object of the joint venture, and knowledge of modernized business firms, and the mainlanders seem very "stupid." But when people from Taiwan really conduct a joint venture with a mainland enterprise or unit, after they have merged, they find that in dealing with interpersonal relations and applying struggle techniques they acclaim Mainlanders as the acme of perfection.

Some Taiwan businessmen reveal privately that in joint venture enterprises there is a fairly complex personal struggle underway among the Chinese personnel and the Taiwan people frequently become the "object or tool" of the struggle between two parties. The worst thing is that this struggle normally is conducted in a way that does spare sacrificing the interests of the joint venture enterprise. A Taiwan businessman named Lin [2651] was very puzzled and said that although he understood the motives and goals of the interpersonal struggle of the Chinese personnel, it stupefied him that these people would sacrifice the major interests of the enterprise for their own petty interests and he "couldn't imagine it."

Actually, the principle is very simple. Chinese joint ventures are basically not the individual's, but are the state's. The individual interests of the Chinese "general manager" and "chairman of the board" frequently can be gained only through corruption, taking bribes and interpersonal struggle. As for sacrificing the overall interests, excuse me, that's the state's and has nothing to do with me. The unfortunate thing is that apart from wanting to mediate the fierce struggle of the Chinese, the Taiwan businessmen who are in the middle also want to bring all their energies to bear on safeguarding the interests of the enterprise that are being sacrificed to the struggle. Yet frequently "siding with elder brother offends his wife" and they can't get along with both of them. In addition, mainlanders' superb talent for giving people a hard time makes it difficult for Taiwan businessmen to figure out the tricks of the Chinese struggles. As a result, they themselves become so confused they don't know what to say, let alone turn the enterprise toward a favorable direction.

A fairly successful Taiwan businessman in Xiamen used the expression "spitting blood" to describe the difficulty of starting a business. He told visitors that due to differences in cultural backgrounds, that "although we use the same Southern Min language" with the local staff, "they basically did not understand what we said." He shook his head and sighed. Chinese cadres mostly scramble for profit, and are overcautious, even to the point of wanting him to make decisions on all matters. What made him most disgusted was that his subordinate mainland staff frequently walked into his office without knocking and though he told them not to many times they did not stop.

No Alternative But To Adopt Military Style of Management

Currently, many Taiwan-financed enterprises have adopted a military style to manage the plants, causing some Chinese officials and workers to grumble. The idea of the mainland managerial class in general is that just letting the workers in the plant is "management" but they basically have no idea how to direct them.

This is understandable, since for quite some time now mainland enterprises have pursued a policy of everyone eating from the same pot: "it does not matter whether

you work or not," that has lowered the quality of workers. It's said that workers in some Taiwan-financed enterprises thoroughly detest the military style management. They complain that the plant boss sometimes really does not treat people as human beings. To cut down on the number of times workers go to the toilet the manager created a ten-cent fee for each visit to the toilet. Sometimes they drive the workers until the workers can't take it and if the plant won't pay more they really are unwilling to work!

Naturally, Taiwan businessmen have noticed subtle changes of worsening wage relations and may provoke troublesome "sequelae." Yet they maintain that their own management methods also have "unavoidable difficulties." There is a painful example: the fire in the Bolo County shoe factory in Guangdong mentioned above was because of managerial oversight. Before they were able to stop the workers from washing the floor with toluene a spark from a welding rod ignited the toluene... some Taiwan businessmen "in the know" indicated that if they didn't use military style management, there would basically be no way to make the factory operate. What are called "humane management modes" in Taiwan basically cannot be used here. Even if they granted the workers "autonomy" of time and capacity, many people basically don't understand self-respect and self-discipline. What makes the Taiwan businesses not know whether to laugh or cry is that these workers can adapt to a military style of management. A worker from the interior in a Taiwan-financed plant said straightforwardly: "If you really let us decide how to work, we would not have any ideas so it's better to let the upper echelons decide what to do and we'll do it and save ourselves from always making mistakes."

Severe Lack of Information, Many Losses

In addition, Taiwan businessmen invest in a mainland which does not have freedom of the press so there is a serious lack of information and their products are passive in the fiercely competitive markets abroad. Taiwan businessmen say helplessly that they cannot read Taiwan newspapers and know nothing about the current situation on Taiwan. The hotels Taiwan businessmen live in do not have the U.S. Cable News Network programs so they do not know the prices of international goods. One should not consider this a minor matter. To cite an example, without knowing Taiwan's market prices, oil prices and the prices of goods it is very difficult to manage production and capital. The Iraqi invasion of Kuwait last year led to violent fluctuations in the dollar, oil prices and a variety of goods in the international market. Taiwan businessmen suffered terrific losses because they were cut off from the news. Taiwan businessmen currently learn of the outside world through "word of mouth" of fellow provincials who have just arrived on the mainland. But this primitive method of news broadcasting is at least fifty years behind the times and there is real doubt whether it can suit the international market of the nineties. It's worth mentioning that although it is easy for Taiwan businessmen to read the

"Wen hui pao" and "Ta Kung Pao" from Hong Kong, they are not enthusiastic readers because there is a real limit to what they can learn of the international prices of goods from just these two left-wing newspapers.

Ch'en Ch'ang-wen [7115 7022 2429]: "What the Chinese Communists Say Does Not Count"

It is reported that the mainland parties concerned have an unwritten rule that demands that mainland intermediaries not report difficulties foreign investors, especially Taiwan investors, encounter in doing business. This clearly is a political consideration. Chinese Communist trade officials optimistically point out that the trade on both sides of the Straits may reach \$5 billion this year, and if you add the final verdict on Taiwan Plastics Wang Yung-ch'ing's [3769 3057 1987], \$7 billion Hai-ts'ang [3189 3318] Plan, the Chinese Communists' painstakingly plotted united front of "surround the government with businessmen, overcome the officials with the people" may be successful. The Chinese Communists' wishful thinking is that after the Taiwan businessmen bent solely on profit become mired down on the mainland, they are bound to put pressure on the Kuomintang authorities and demand a justifiable "direct business, direct transportation, direct posts" and this could make the government's "three no contacts" policy crumble.

Taiwan originally established the Straits Capital Society to safeguard the rights and interests of Taiwan businessmen who invested in the mainland but with the painstaking exaggeration of the Chinese Communists, the political coloring of the Straits Capital Society has concealed everything. Some Taiwan businessmen complain privately that they originally thought that Ch'en Ch'ang-wen's Mainland Guild would bring something of substance and improve their current situation. Now they see their hopes have come to nothing. Yet after Ch'en returned to Taiwan and began talking of the profound understanding of the Mainland Guild, it was "What the Chinese Communists say does not count." He is a well-qualified legal specialist and this statement should put Taiwan businessmen who have "gained a foothold" on the Mainland on their guard.

Anthony Chiang on 20 May Demonstration

91CM0466A Taipei HSIN HSIN-WEN [THE JOURNALIST] in Chinese No 220, 2 Jun 91 pp 52-55

[Article by Ssu-ma Wen-wu (0674 7456 2429 2976): "Have the University Students Awakened Hao Po-ts'un?"]

[Text] If the student movement that lasted over ten days is looked at for its minor points, it had a great many shortcomings. Problems ranged from demands, organization, and communication to direction. But if looked at for its major points, this is the largest intellectual protest movement in Taiwan in years. It will leave a deep impression on Taiwan's political, social, and scholarly and educational spheres. Comparatively, the internal

problems revealed in the course of the student movement were nothing more than small contradictions in the greater logic.

This student movement was quite different from last March's student movement. Last year academicians and students stood together and the professors looked after the students, but they maintained their distance from the Democratic Progressive Party (DPP). The main themes of their demands were rather simple and concrete. In this year's student movement, the academicians and the students were allied and not subordinate to one another, and the DPP played a supporting and coordinating role. The main themes of the demands of the entire movement regarded political structural issues and the essential nature of Taiwan.

Last March's student movement facilitated the convening of a National Affairs Conference. This year's student movement not only brought about the immediate release of four suspected of sedition in violation of article 2, paragraph 1 of the Regulations Governing the Punishment of Sedition, but also made the Kuomintang (KMT) immediately repeal the regulations, and brought about public discussion and widespread attention on the future of Taiwan. In the process, it taught intelligence and political units and judicial units a very big lesson, and created very serious internal injury to the Hao [6787] cabinet. So, in such respects as scale, results, and influence, it was much more important than last year's student movement.

This demonstration led by the intellectuals was historically unprecedented. Close to 1,000 academicians left their ivory towers to take to the streets; over 20 learned scholars from overseas voiced their support in open letters; several thousand university students from various schools came forward to participate, and several social and democracy movement organizations formed into spectacular parade contingents with the support of the DPP. This force, which had no way of being effectively used in the normal political system, not only played a reinforcing role, but also neatly tended to form a third large political force in addition to the KMT and the DPP.

Actually, all those familiar with the internal situation know that relations among the various organizations participating in this student movement were filled with contradiction and tension. For example, the Ch'eng She [3397 4357] and the Taiwan Professors Alliance [Taiwan Chiao-shou Lien-meng; 0669 3494 2403 2219 5114 4145] are of a different hue. Even though there are different views and different voices within the Ch'eng She, communication is not good between the professors and the students; a great many of the students are dissatisfied with the professors' leadership; and the professors are concerned about losing control of the students. There also is contention over line and authority between the two university student organizations, fought very fiercely and almost publicly, causing people to feel

that the university students know how to play at politics but really are not keen on planing strategy.

These internal conflicts sometimes really hurt people because, in addition to line and strategy, they also conceal ideological issues of unification or independence. "New independent right" and "new unification left" labels are flying everywhere. Some strong ideologues lack democracy and definitely want others to make an immediate decision between unification and independence—if not unification, independence. Because the liberals do not take a clear-cut stand, they are looked upon as opportunists. This band of radical students commend themselves for having a good conscience, but they unwittingly reveal a strong consciousness of fascist authority. Although it is a small force, it has strong cohesion and is rather rich in fighting experience and in some situations has become the dominating force.

Its internal disputes, arguments, and petty grudges are quite numerous, but if one steps back and looks, no movement can avoid politics and factions. The student movement certainly is highly political. They pay particular attention to internal and external strategy. This experience with contention forces them to mature quickly. They have acquired self-discipline in human relations, organizational communications, and their concept of the movement.

This student movement ostensibly erupted because of the Taiwan independence proposal. Later, the police struck at professors and on-campus spies which worsened the situation. Actually, it had a story of its own. The loss of hope for political reform which had been delayed by conservatives, the loss of hope in the political structure, and the rethinking of Taiwan's future were the real motivations for the student movement.

The Hao cabinet was directly challenged. Its forceful tactics in the past year caused some dependence on conservative forces and produced a great deal of obstruction to the development of party politics and legislative politics. Party politics regressed instead of progressing and the DPP withdrew from the assembly, creating a major setback for legislative politics. No sincerity toward reform could be seen in the KMT's provisional national assembly or other laws and policies. But Hao Po-ts'un obstinately talked only about law and order and did not concern himself at all about democratic reform, making the whole society wait in vain. Intellectuals were especially disheartened and sought an opportunity to express and vent their feelings.

Last year the intellectuals opposed the military cabinet. Quite a few people thought that they should give Hao Po-ts'un the chance to try before they spoke. But over a year of observation has proven that the intellectuals were basically correct in their criticism and apprehension about him. This student movement also could be said to be a movement against the Hao cabinet. If Hao Po-ts'un had a chance to look at the entire videotape and see the

impressive display of power of everyone's antipathy toward him, he undoubtedly would not be able to sleep nights. And if the KMT sees this scene, they will know that Hao Po-ts'un after all could become a burden to the party. This also is the reason for the softer appeal of the KMT's low-key handling, and Hao Po-ts'un's change from his normal attitude.

The student movement also has a major clash with the DPP because it has proven that the DPP has lost its early fresh vigor, and the former DPP role as the "engine of reform" now has been taken by the student movement. The DPP Central Committee has two large mutually inhibiting factions. The Legislative Yuan party group all along has been deadlocked over whether or not to return to the legislative scene, causing extreme disappointment to the electorate. The DPP support of this student movement was handled pretty well. It is a shame that the DPP has a strong healthy body for nothing. Lacking a head that can direct the body, the whole party has become ever more rigid in both thought and action. People very much regret that they have lost flexibility, imagination, and creativity in their legislative line and in their line on the streets.

The good reaction of the KMT to the student movement temporarily resolved the tension, but the students demanded structural reform, not just revision of a few laws. This KMT concession, like concessions made by other dictatorial governments to democratic forces, can only stimulate a greater appetite to demand even more concessions from the authorities until all structural issues receive reasonable solutions.

In addition to politics, the deepest motivating spirit of this student movement has been strictly overlooked. That is an identification with and dedication to Taiwan itself. All of the gathering songs that the students sang this time were mainly Taiwan folksongs. When they addressed the crowds, they mainly used the Taiwan dialect, and this time Taiwan independence clubs were involved on various university campuses. In recent years various types of Taiwan research societies have formed like bamboo shoots after a rain. This is a new generation with strong nativist and grassroots sentiments and one that greatly merits the serious consideration of those in and out of the government.

Just as student leader Lin Chia-lung [2651 0163 7893] pointed out, "Modern Chinese thought cannot be said to have been an enlivening force at all for Taiwan students. This historical and actual split has led the students' feelings toward China to change to concern for Taiwan." This Taiwanese consciousness is not necessarily related to Taiwan independence, but, no doubt, it helps to encourage Taiwan independence and an independent Taiwan consciousness.

From elementary school to upper middle school we all receive a Chinese derived education. No more than five percent or the issues are concerned with Taiwan; the other 95 percent are all Chinese issues. Students must

thoroughly memorize this until we get to university and before we can begin to think about what the significance of this education is for us. Why is our understanding of our own land and society so lacking, but we spend immeasurable time studying Chinese issues. In this respect, if we exert all of our efforts, we still cannot catch up with mainland students. Is it not clear that if the Taiwanese strive forever, they will not have the opportunity to become the impressive and dignified leader, but under the mask of democracy, they will sink to being second-class Chinese citizens and a local government? To what depths will the KMT's fundamental national policy which is a policy determined to lump Taiwan and the mainland together, put down Taiwan's people? Is it possible that the young students could have their fortunate lives forfeited by this prenatal betrothal by the KMT and the communists?

Taiwan research societies are being organized one after the other in this kind of despair and anxiety. The KMT's unification policy and suppression of Taiwan independence can only further stimulate the university students' identification with Taiwan. The KMT's making the national doctrine to be a unification doctrine might force Taiwan independence to become a popular conviction. Attacking Taiwan independence can only arouse even greater rebellion, and the orientation toward traditional Chinese thought, education, and culture also will certainly gradually stir up a mass fervor for Taiwan studies and increase thought for Taiwan's future.

Because of political, ideological, cultural, and identity and social factors, wave after wave of student movements will come on the scene. Changes in the political structure and the rationalization of political procedures might alleviate the conflict, but there still is no way to resolve this fundamental issue.

This was a mild demonstration, small compared to China's previous student strikes and not comparable with foreign student movements. A great many people advised the students that they should be good, go to class, and not get involved in the student movement to avoid being used by people. These admonitions were fundamentally lacking in persuasive power for the people in the student movement, because they felt that what they would learn in the student movement was far more valuable than what they would learn in class.

Democratic nations normally rely on such means as political parties, legislatures, mediators, and the judiciary to resolve various conflicts, but on Taiwan these four systems all have serious defects, so the student movement can be used. A great many people now are very worried about the development of the student movement because it has many potential dangers. This is really true, and the student movement is still growing now. Until a normal, reformed system plays its part, I am afraid that it will be hard to avoid the ever more important role of the student movement in reform.

Liang Su-jung Feels Politically Persecuted

91CM0491A Taipei HSIN HSIN-WEN [THE JOURNALIST] in Chinese No 223, 23 Jun 91 p 67

[Article by Chiao Wei-erh (0829 1218 1422): "Guess Who on Taiwan Knows Best About Impending Disaster?"]

[Text] Suppose someone asks you to guess: Who on Taiwan knows best about impending disaster? What would your answer be? To give you a clue: Do not answer Lee Teng-hui [2621 4098 6540], also not Hau Pei-tsun [6787 2672 2625]. You still do not know? Good, I will tell you, the answer is Liang Su-jung [2733 5126 2051]!

Today's Liang Su-jung no more is merely the president of the Legislative Yuan; he is "the man who is most often involved in altercations with the opposition party" and the man who "most often asks for police protection." Even more so, he is the "mainlander who has the most vicious fights with the native-born Taiwanese."

Since the time he became president of the Legislative Yuan, the phrase he most frequently uses, be it on official or private occasions, is: "Most mainlanders on Taiwan are deeply conscious of being discriminated against." He cites his own case as proof: "The 'merciless attacks' that I personally had to suffer in the Legislative Yuan have always been, after all, the result of the exclusionary discrimination against mainlanders by the locals (i.e. by the Taiwanese)"

In actual fact, to a very serious degree, Liang Su-jung shows a persecution phobia which is much more serious than the "consciousness of persecution" that he talks about. At every opportunity, he abuses people as "Taiwan-independence-mongers" and at every turn insults people as "locals who try to grab power." His logic runs probably like this: All members of the opposition party are Taiwanese; most Taiwanese are in favor of Taiwan independence; Taiwanese try to grab power from the mainlanders; a Taiwanese seizure of power from the mainlanders would be the death knell for the Republic of China; and what would follow to replace it would be the State of Taiwan.

Recently, Liang Su-jung came to an altogether new conclusion: All delegates elected in the second election to the National Assembly are local representatives (i.e. representatives of the native-born Taiwanese) who may in due course destroy and abandon the original cabinet-type government of the Constitution in favor of a president-type government. Hence, the president-type of government could undoubtedly cause major changes in the organization of political power and thus lead to a struggle for power between those of different provincial origins.

After all is said and done, what he is worried about is just that one thing, namely that the mainlanders will be squeezed out by the native-born Taiwanese.

However, Liang Su-jung is forgetting one cruel fact: As long as the KMT [Kuomintang] will never have an opportunity to lead all military and civilian compatriots on Taiwan in a counterattack against the mainland and recover the mainland, the proportion of non-native Taiwanese to native-born Taiwanese will at no time change structurally. The native-born Taiwanese will forever be the political majority. If the mainlanders think of changing this structure, each one of them will have to either "produce [babies] for the salvation of the country", thereby inducing qualitative change through quantitative change, or else accept this cruel fact. Besides, would it really be the end for non-native Taiwanese, if native-born Taiwanese would take charge and run the country?

In addition to Liang Su-jung, there may still be many mainlanders who hold the above-mentioned pessimistic view but with all the pessimism and anxiety, what could be done about it? The present election has already brought to office representatives in proportion to the political parties. It is impossible that the mainlanders are left with absolutely no political power at all. Does it have to be that the mainlanders must be guaranteed a majority, so that the "Liang Su-jung's" can all sleep peacefully and so that they never again be awakened by a political nightmare?

Liang Su-jung probably knows himself that he cannot possibly stop the natural development. Therefore, he pins his last hope on the "attitude of the Central Committee of the ruling party" and, furthermore, pins it "particularly and suddenly on President Lee Teng-hui." The Taiwanese President Lee Teng-hui has become the ultimate life-saving raft for the "Liang Su-jung's," as if they were men drowning in waters above their heads.

Before the lifting of martial law, some people feared that turmoil would break out in Taiwan. Before the repeal of the Regulations for the Suppression of Rebellion, some people were concerned that after abolition of the law, rebels would rise all over Taiwan. When the temporary provisions [during the period of communist rebellion] were abolished, some people feared that the president would be left without power and that there would be no government at the center, but all this panic and all these anxieties and fears were proven to be completely groundless.

In South Africa, the closest friend that Taiwan has, the race problem is a hundred times more serious than the problem that Taiwan has with its people from different provinces. The minority of white people who hold all power there have all along used the policy of apartheid to maintain themselves unshakably in power. The white people had feared that if the blacks were allowed to enjoy equal rights, there would be no place for the whites, even for their corpses to be buried. However, the whites have now come round in their thinking and are abolishing the various apartheid policies. Whites and blacks are trying

to live together as equals, and the whites in South Africa no more are afraid. What, then, should the mainlanders on Taiwan have to fear?

There is still another small news item that should awaken the "Liang Su-jung's": The political stars of the second generation of mainlanders, such as Chao Shao-kang [6392 1421 1660], Ma Ying-chiu [7456 5391 0046] and Kuan Chung [7070 0022] are all recently studying the Taiwanese language. Even Liang Su-jung's old comrade-in-arms, Hau Bei-tsun, is studying Taiwanese. After his retirement, President Liang, a native of China's northeast, should have quite some leisure time and should have much opportunity to seek out a class in Taiwanese to study the language. On that day when Liang Su-jung will be able to freely associate with the native-born Taiwanese and speak with them in fluent Taiwanese, much as he is capable of using fluent Japanese to freely associate with former enemies and converse with them, Liang Su-jung's discrimination phobia might be cured without a drop of medicine!

6-Year Plan To Promote Hi-Tech Initiative, Independence

91P60263A Frankfurt/Main FRANKFURTER ZEITUNG/BLICK DURCH DIE WIRTSCHAFT in German 20 Aug 91 p 8

[Text] Over the next few years, the Chinese island republic of Taiwan wants to reduce its critical dependence upon Japanese high-quality technologies and ascend to the rank of an important high-tech country. Within the last few days, the Taipei Government commissioned a six-year plan for the construction of a gigantic research park called Hsin-chu Science City. The aim is to build up, in the Western Pacific, an "intelligent metropolis" which is to be a leader in the development of new technologies for the coming information age.

Taiwan's new technology center will begin with the existing Hsin-chu Industrial Park, established 11 years ago, and will eventually include adjoining technology institutes and industrial facilities as well as the city of Hsin-chu itself. Plans call for around one million inhabitants by 1996. In terms of the value of its production, the park will by then have generated returns of around \$7 billion and created 50,000 new positions. Among the advantages accruing to the park are: (a) rapid access to international telecommunications networks, (b) an extensive regional transportation network, and (c) the settlement of related industries. Already, the Hsin-chu Research Park is playing a significant role in Taiwan's effort to build a more technology-intensive economy in the future. The park is Taiwan's "Silicon Valley" and is home to a number of high-tech producers. Research and development work is focusing upon fields such as computers, semiconductors, telecommunications, bioengineering, optoelectronics and automation, as well as environmental protection and energy research.

Last year, the research park's complement of computers alone constituted 22.4 percent of the island's overall

complement of computers. Last year as well, the value of the research park's production amounted to \$2.4 billion. High-definition television (HDTV) is one of the important fields of technology in which Taiwan wishes to establish a foothold in the years to come. Over the last few days, the Taiwanese Industrial Development Bureau introduced a far-reaching plan which should significantly accelerate the country's development efforts in this project. Specifically, the country's research laboratories should intensify their efforts to develop key technologies for HDTV.

Likewise, high-definition video figures among the lucrative products of the coming years and many of the country's producers wish to invest in the development of these technologies. The Taiwan Government wants to extend ample assistance to those firms investing in important parts and components of these products. This assistance extends from tax incentives to low-interest financing. Studies by the American market research companies DATAQUEST and DYNATECH indicate that through the year 2000, via the sale of new HD-video products, annual sales of the Taiwan consumer electronics industry will allegedly increase to \$5 billion.

Editorial Urges Caution in Spending Foreign Exchange Reserves

*91CE0796A Taipei CHING-CHI JIH-PAO in Chinese
29 Aug 91 p 2*

[Editorial: "Carefully Consider Financial Impact of Using Foreign Exchange Reserves To Import Capital Goods"]

[Text] The idea of tapping into the foreign exchange reserves to import capital goods in order to support the major domestic construction projects has been a focus of attention and interest in all quarters lately, especially after the Central Bank announced a few days ago that the money supply increased at a whopping 16.9 percent annually in July. This figure was not only the highest in two years but also exceeds the target range set by the Central Bank earlier in the year. The notion of dipping into the foreign exchange reserves to support major investment projects in the country has commanded additional attention because of its implications for fiscal stability. As the Central Bank has noted, the principal reason behind the sharp increase in the annual growth rate of the money supply in July is the fact that banks have been making significantly more loans, this at a time when the six-year national development plan just got under way. Hence the increasing need to use the foreign exchange reserves.

As a matter of fact, how to use foreign exchange reserves and whether or not such a move will generate additional pressure to increase the money supply at the heart of a public debate ever since Premier Hau Pei-tsun [6787 0130 2625] instructed the Central Bank early this month to use some foreign exchange reserves to support domestic investment projects. Many people think that

using foreign exchange reserves to import capital goods will not directly cause the money supply to expand and therefore will not disrupt the domestic financial situation if it goes through the banks. Nor, they argue, will it upset the domestic supply-demand equation by inflating demand. A number of senior officials in the Ministry of Economic Affairs and the Council for Economic Development all have expressed similar opinions. As we see it, they seem to have oversimplified the potential financial impact of using foreign exchange reserves to import capital goods. There is an urgent need to re-examine such impact.

Using foreign exchange reserves to meet the needs of economic development has been a much-touted idea in recent years. These days most people understand that the Central Bank cannot use foreign exchange reserves to import capital goods on its own. They also appreciate the fact that although it is a government bank, the Central Bank cannot simply hand over some foreign exchange to the government to buy foreign capital goods required by public construction. In contrast, some years ago suggestions were made that the Central Bank use foreign exchange reserves to import machinery and equipment on its own or that the bank, being a government bank, simply give some foreign exchange to the government to finance economic development. So most people have now become much more enlightened when it comes to financial matters.

But if the Central Bank can neither import capital goods on its own nor directly turn over some foreign exchange reserves to the government, how can we tap into our foreign exchange reserves to aid economic development? Now that foreign exchange liberalization is under way, the most basic method is for the company to buy foreign exchange on the foreign exchange market with its own funds or with a short-term loan from a bank. In this approach, the Central Bank funnels the foreign exchange needed by economic development into the foreign exchange market through the normal foreign exchange trading channels. If the government or a government agency is doing the importing, the transaction should be included in the budget or a special budget for major projects, but the foreign exchange required still must be purchased on the foreign exchange market and should not be allocated by the Central Bank. This method is most in line with foreign exchange liberalization and most normal. As long as the Central Bank has sufficient foreign exchange, as long as there is an open foreign exchange market, this is the way to go.

But this method will not work when a private business does not have sufficient funds, when the bank lacks sufficient funds to make short-term loans, or when the bank has sufficient funds but the company cannot meet the bank's lending requirements regarding interest rates or maturing periods. In these cases, the Central Bank may offer the foreign exchange required as a short-term loan to the bank in question. Alternatively it may lend the funds to the bank on terms acceptable to the business involved (typically more favorable than those on the

open market) so that the bank can then re-lend it to the business. A number of short-term lending programs currently offered by the Central Bank, such as "short-term foreign exchange lending to finance the import of machinery by production enterprises," "short-term lending to finance the import of foreign machinery, equipment, and new technology by a technology-intensive industry," "short-term lending to finance equipment replacement in a major export industry," and "short-term foreign exchange lending to finance overseas investment" all are based on this commonly used method. In effect the Central Bank is "rationing credit" up to a point. These days when people demand that the Central Bank help finance the import of equipment needed for economic development by dipping into the foreign exchange reserves, they usually have in mind this kind of foreign exchange short-term lending.

It is generally believed, even by some high-ranking financial and economic officials, that such short-term foreign exchange lending by the Central Bank aimed at financing the import of capital goods will neither constitute a demand for domestic commodities nor directly boost the money supply at home. As a result, they reckon, it will not disrupt the domestic financial situation, heighten inflationary pressures, or undermine price stability. Yet if we look more closely, we will see that the monetary impact still will be considerable. Suppose the Central Bank does not offer foreign exchange short-term lending, which means that business must use their own funds or borrow from banks to secure foreign exchange on the market. These moves have deflationary effects because when the Central Bank supplies foreign exchange through the market, its foreign exchange reserves decrease but it recaptures new Taiwan dollars of an equal value. On the other hand, when the Central Bank makes short-term foreign exchange lending, it does not recapture any new Taiwan dollars. In this sense,

short-term foreign-exchange lending by the Central Bank effectively expands credit, thereby disrupting the financial situation.

But that is not all. Because of foreign-exchange short-term lending by the Central Bank, banks find that they have extra "lendable funds" on hand, which can be used to make other kinds of loans. As for the companies, they can divert their original funds to other purposes, including speculation. When all this is combined with the credit-expanding effects mentioned above, the magnitude of the money supply will be impacted directly and indirectly, disrupting the financial situation and undermining price stability. The greater the amount of short-term foreign exchange lending by the Central Bank, the greater the amount of lendable funds in the hands of banks, and the greater the amount of funds the company has to begin with, the more substantial the impact on the financial situation and price stability.

To accelerate national modernization, raise the standard of living, and establish a stable and peaceful society, the six-year national development plan will require a massive amount of money, some of it to be drawn from the foreign exchange reserves of the Central Bank. We believe the Central Bank must make available its huge reserves to help finance the import needs of national development, preferably through the foreign exchange market, which is the normal *modus operandi*. When this option is not available, the Central Bank must resort to short-term foreign exchange lending. While the latter approach will not directly increase the size of the money supply, its direct and indirect financial impact must be considered carefully so that it would not affect financial or price stability. How to fully meet the need for foreign exchange funds required by national development while maintaining financial and price stability is a major issue that the Central Bank must wrestle with.

Direct Elections Politicize People's Lives

91CM0535A Hong Kong MING PAO in Chinese
25 Jul 91 p 34

[Article by Chen Chang-ming (7115 4545 2494), instructor of the department of applied social sciences of the Urban Science and Engineering Institute: "Politicization of People's Lives—A Phenomenon Caused by Direct Elections"]

[Text] The year 1991 is a year which must not be ignored in Hong Kong's election history. The regional parliament and municipal executive council (regional executive council) elections, which were held recently, and the legislative council election, which is coming on 15 September, all indicate that the mighty torrent of democracy has become irresistible and inevitable. Although the democratic political system has developed extremely rapidly in the past few years, the people's lives, including education, medical care, and welfare, have failed to develop simultaneously. The people's lives have failed to keep up with the reform of the political system and with democratic ideology. In contrast to the political system, policies concerning the people's lives seem to be going backward. Normally living standards should become more evenly matched as democratic ideology increases and the political system opens up. The appearance of the current phenomenon of "going backward" in educational, medical care, and welfare policies can be blamed on the practice of politicizing the people's lives. This is a prominent practice in the course of "preparing to fight" in the current election of the legislative council.

Politicizing the people's lives means that candidates use incidents of immediate and special concerns in the lives of ordinary citizens as an instrument to advertise their own image. First they try to increase their popularity and create an heroic image of people's petitioner and then win the support of citizens to reach the political objective of entering the legislative and executive structure.

Normally there is nothing wrong itself with politicizing the people's lives as long as people who employ this strategy can follow through and eventually improve the people's lives, but judged from the fact that in the past two years the government with minimum opposition has introduced policies that are harmful to current education, medical care, and welfare policies, politicians are after all politicians. They only engage in empty talks when things are hot. They do not necessarily follow through afterwards. This practice of emphasizing only current political objectives not only cannot spur democratic reform but will also hinder the development of the "minimum living standards insurance" due the people when Hong Kong advances toward an advanced society.

When candidates address certain issues or take certain actions, concerned citizens all wish that candidates can really stand up for them and find justice. For instance, during the initial period of an incident such as that in which elementary school students jumped and threw things out of high rises, some individuals or groups, on

behalf of the citizens, questioned the government on the loopholes of the current policy and demanded improvement. However, when other incidents which had a greater news value or could help win over more voters occurred, candidates responded immediately and changed their targets, leaving the former reform items undecided and forgotten. In this way, first of all, the candidates really helped the government by cooling off concerned citizens when they were most excited and detonating a "bomb" of complaints for the government. Second, the candidates divided up the force and weakened the original strength of reform pooled by the citizens. The government ended up doing its own thing without any supervision among the numerous voices of opposition. Now let us take a look at the educational department. Not only has it failed to consider the incidents where pressure caused elementary school students' tragedies such as the jumping from buildings and the need to increase the number of faculty members accordingly, but, on the contrary, it has reduced the number of workers at schools on the basis that students are now encouraged to assume responsibility for cleaning their own schools.

Campaign activities aimed at getting elected can cause candidates to concentrate on the struggles against other candidates and ignore the in-depth understanding of incidents concerning the people's lives. This causes candidates to engage in incidents just to get votes. They themselves are not necessarily fully involved. Some incidents may even contradict their firm individual beliefs. All this would lead to an extreme contradiction between the individual ideals of candidates and reality. The final result is inconsistency between words and deeds. For instance, some candidates who claim to be democratic personages insist on abolishing the death penalty although many citizens demand that the death penalty be restored. For another instance, some democratic party members semi-overtly announced that they cannot allow the candidates of other political parties to campaign in the same area, so they directly or indirectly denounced their rivals as non-democratic personages in their campaign speeches. This kind of practice which over emphasizes political gains and losses will eventually divide the intellectuals who are supervising the government and encourage the government to persist in its old ways in regard to democratic policy decisions.

If this situation continues, even if democratic parties manage to control legislative and executive powers, the people will plunge into an abyss of misery. Democracy will be nothing but an empty shell. It will be hard enough for citizens to feed themselves, pay medical insurance, come up with money to support their parents, and pay for their children's education. Where will they find time to enjoy democracy and freedom?

Democracy needs the foundation created by the people's lives. Only after people's lives have basic guarantees can we support people's rights. Only after we have people's rights can we firmly establish a government system with grassroots supervision. Only then can democracy really

exist in the people's lives. If this process is reversed, democracy is nothing but yet another power struggle tool for those in power.

Sources of Campaign Funds Among Democratic Groups

91CM0535B Hong Kong MING PAO in Chinese
4 Jul 91 p 25

[Article by Chun Chiu (2504 4428): "Where Do Campaign Funds Come From?"]

[Text] The year 1991 is an election year. It is also a year when all major democratic parties go on a spending spree. In March's regional parliament and May's municipal and regional council elections, candidates competed with each other on financial power in addition to the popularity of their behind-the-stage sponsors. The September legislative council election will be a time when they test each other's real strength.

According to government regulations, no candidate of the legislative council election should spend more than HK\$200,000 [Hong Kong dollars] in campaign funds. This causes a big headache for all democratic parties in Hong Kong. The Hong Kong United Democratic Alliance plans to enter 14 candidates into the race of the legislative council election. If each candidate needs HK\$200,000, it will need a total of HK\$2.8 million. The Huitien sends three persons and needs HK\$600,000. Feng Chien-chi [7458 2914 1015] and Lo Hsiang-kuo [5012 4382 0948] will run for the Association for Democracy and People's Livelihood and will need HK\$400,000. Even Chen Ying-lin [7115 5391 2651] representing the Association to Promote Democracy will need HK\$200,000.

Some independent candidates such as Chen Yu-hsiang [7115 3022 4382] questioned the fact that the campaign funds of the candidates of these political parties are only HK\$200,000 because the number of staff members and operational expenses of these political parties are not included in the HK\$200,000. But an independent candidate has to report all expenditures without any mistake. It is obviously unfair.

However, an amount of several hundred thousand to a million Hong Kong dollars, after all, is not small. Except for the support of a few people, the various organizations of these democratic parties have tried all tricks to raise funds.

Of all the fund-raising tricks, the method of the Hong Kong United Democratic Alliance may be the most distinct one. Since the end of June, the Hong Kong United Democratic Alliance started a series of telephone hot line fund-raising activities to raise funds to cover routine expenses and expenses for the 1991 direct legislative council election. In this activity of the Hong Kong United Democratic Alliance, referred to as "hot line fun fun fun," citizens show support for the alliance by calling the international direct dial long distance number. The alliance then collects money from the monthly statement as campaign funds. This practice can help raise daily operational funds and discover the number of areas and people supporting the alliance, thus killing two birds with one stone.

As for the Huitien, in addition to publishing fund-raising newspaper ads, sponsoring dinner meetings, and selling raffle tickets, it does not exclude the possibility of soliciting from Chinese-funded organizations. Chang Ping-liang [1728 3521 5328], chairman of the Huitien, said that Huitien may solicit from any organizations, implying that it may include Chinese-funded organizations.

Feng Chien-chi, chairman of the Association for Democracy and People's Livelihood, emphasized that the association hopes to have direct contacts with the Chinese and strives to reverse the negative influence of the 4 June incident. He said that Hong Kong residents should mind their own business and stop mentioning "overthrow" and accusations such as "bloody suppression." Since there soon will be a series of fund-raising activities, these announcements may be of some help to them.

Although the Association to Promote Democracy has only one candidate, it is still vigorously carrying out its fund-raising activities. It raised some money at a political fund-raising raffle held on 21 June where raffle ticket winners were announced. The method was a little bit outdated, but the prizes were picked out carefully.

NTIS
ATTN: PROCESS 103
5285 PORT ROYAL RD
SPRINGFIELD, VA

2

22161

This is a U.S. Government publication. Its contents in no way represent the policies, views, or attitudes of the U.S. Government. Users of this publication may cite FBIS or JPRS provided they do so in a manner clearly identifying them as the secondary source.

Foreign Broadcast Information Service (FBIS) and Joint Publications Research Service (JPRS) publications contain political, military, economic, environmental, and sociological news, commentary, and other information, as well as scientific and technical data and reports. All information has been obtained from foreign radio and television broadcasts, news agency transmissions, newspapers, books, and periodicals. Items generally are processed from the first or best available sources. It should not be inferred that they have been disseminated only in the medium, in the language, or to the area indicated. Items from foreign language sources are translated; those from English-language sources are transcribed. Except for excluding certain diacritics, FBIS renders personal and place-names in accordance with the romanization systems approved for U.S. Government publications by the U.S. Board of Geographic Names.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by FBIS/JPRS. Processing indicators such as [Text] or [Excerpts] in the first line of each item indicate how the information was processed from the original. Unfamiliar names rendered phonetically are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear from the original source but have been supplied as appropriate to the context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by the source. Passages in boldface or italics are as published.

SUBSCRIPTION/PROCUREMENT INFORMATION

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in eight volumes: China, East Europe, Soviet Union, East Asia, Near East & South Asia, Sub-Saharan Africa, Latin America, and West Europe. Supplements to the DAILY REPORTs may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications, which include approximately 50 regional, worldwide, and topical reports, generally contain less time-sensitive information and are published periodically.

Current DAILY REPORTs and JPRS publications are listed in *Government Reports Announcements* issued semimonthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The public may subscribe to either hardcover or microfiche versions of the DAILY REPORTs and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be

provided by NTIS upon request. Subscriptions are available outside the United States from NTIS or appointed foreign dealers. New subscribers should expect a 30-day delay in receipt of the first issue.

U.S. Government offices may obtain subscriptions to the DAILY REPORTs or JPRS publications (hardcover or microfiche) at no charge through their sponsoring organizations. For additional information or assistance, call FBIS, (202) 338-6735, or write to P.O. Box 2604, Washington, D.C. 20013. Department of Defense consumers are required to submit requests through appropriate command validation channels to DIA, RTS-2C, Washington, D.C. 20301. (Telephone: (202) 373-3771, Autovon: 243-3771.)

Back issues or single copies of the DAILY REPORTs and JPRS publications are not available. Both the DAILY REPORTs and the JPRS publications are on file for public reference at the Library of Congress and at many Federal Depository Libraries. Reference copies may also be seen at many public and university libraries throughout the United States.